

# Nation's Business

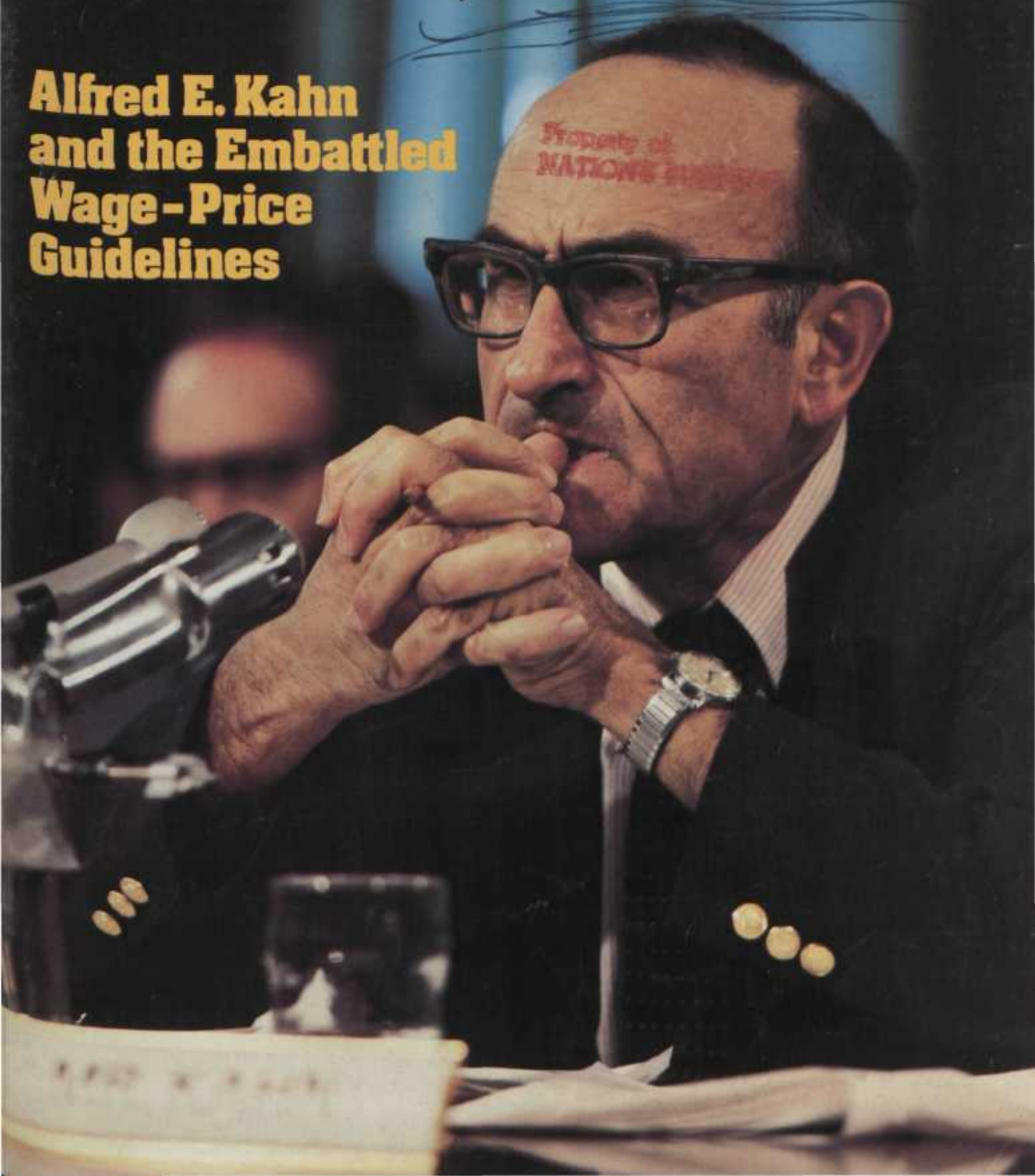
JULY 1979

the business advocate magazine

circulation at all-time high — 1,200,000

*Do Not Remove*

## Alfred E. Kahn and the Embattled Wage-Price Guidelines



# GM's New Front-Wheel-Drive Cars

## Roomy. Comfortable. The "space age" comes to trimmer cars.



One of the first things to impress you about the new Chevrolet Citation, Pontiac Phoenix, Oldsmobile Omega and Buick Skylark is the amount of room for both passengers and luggage.

### How we got it.

Basically, these cars were designed around transverse-mounted, front-wheel-drive engines and MacPherson Strut front suspensions. This allows us to reduce overall length, yet design cars with plenty of room for passengers and luggage.

### Surprising spaciousness.

For 1980, there's more front-seat legroom and rear-seat hip room, headroom, legroom and knee clearance than in the cars they're replacing.

The rear seating is the same in two-door models as it is in four-door models—enough for three adults.

And for tall people, the front seat can be adjusted rearward more than on any other domestic automobile.



Even the trunk has been designed for efficient use of space, with the spare tire tucked away under a special panel to provide a completely flat floor.

### Comfortable accouterments.

As you might expect, these new GM cars are also designed to pamper. Body by Fisher interior appointments are most handsome. Instrument panels are good-looking yet functional. Foam-backed headliners contribute both good looks and acoustical insulation. And one-piece carpeting is standard.



### Take a test drive.

If comfort and room are important to you in the selection of an automobile, we'd like to recommend that you test-drive our front-runners for the '80s at your GM dealers soon.

You're in for a thoroughly delightful experience.

**GM's** *Look into buying or leasing at your GM dealers today.*  
**Front-Runners for the '80s.**

**Chevrolet Citation, Pontiac Phoenix, Oldsmobile Omega, Buick Skylark.**





## **"26 of our people became better, more efficient managers by taking the Dale Carnegie Management Seminar."**

ROBERT BARENSFELD, PRESIDENT  
ELLWOOD CITY FORGE CORPORATION  
ELLWOOD CITY, PENNSYLVANIA

"Twenty-six of our managers, including myself, took the Seminar to improve our management methods and individual capabilities," says Bob Barensfeld.

"In the Seminar, we developed a better understanding of practical management principles and how they apply to our operation. Our decision making abilities were greatly improved by the Seminar, and our individual responsibilities have expanded.

"We learned to use more creative thinking to solve problems and plan innovations. We gained new skill in delegating—choosing the right people for the right jobs. Our decisions are easier to make, too, because we now approach them with greater confidence.

"The Seminar also gave us guidelines to establish more effective communications—including a practical feedback system. This helps us monitor our progress and keeps the work flowing. As a result, we're functioning more as a team, and we have a smoother, more productive operation.

"The Seminar was a practical, down-to-earth and inspiring experience. We are gratified with its results."

*You can obtain more information about the Dale Carnegie Management Seminar and how it can benefit your managers and your company, without cost or obligation. Write today for our quick reading brochure. Or call toll-free (800) 231-5800. In Texas only, call toll-free (800) 392-2424.*

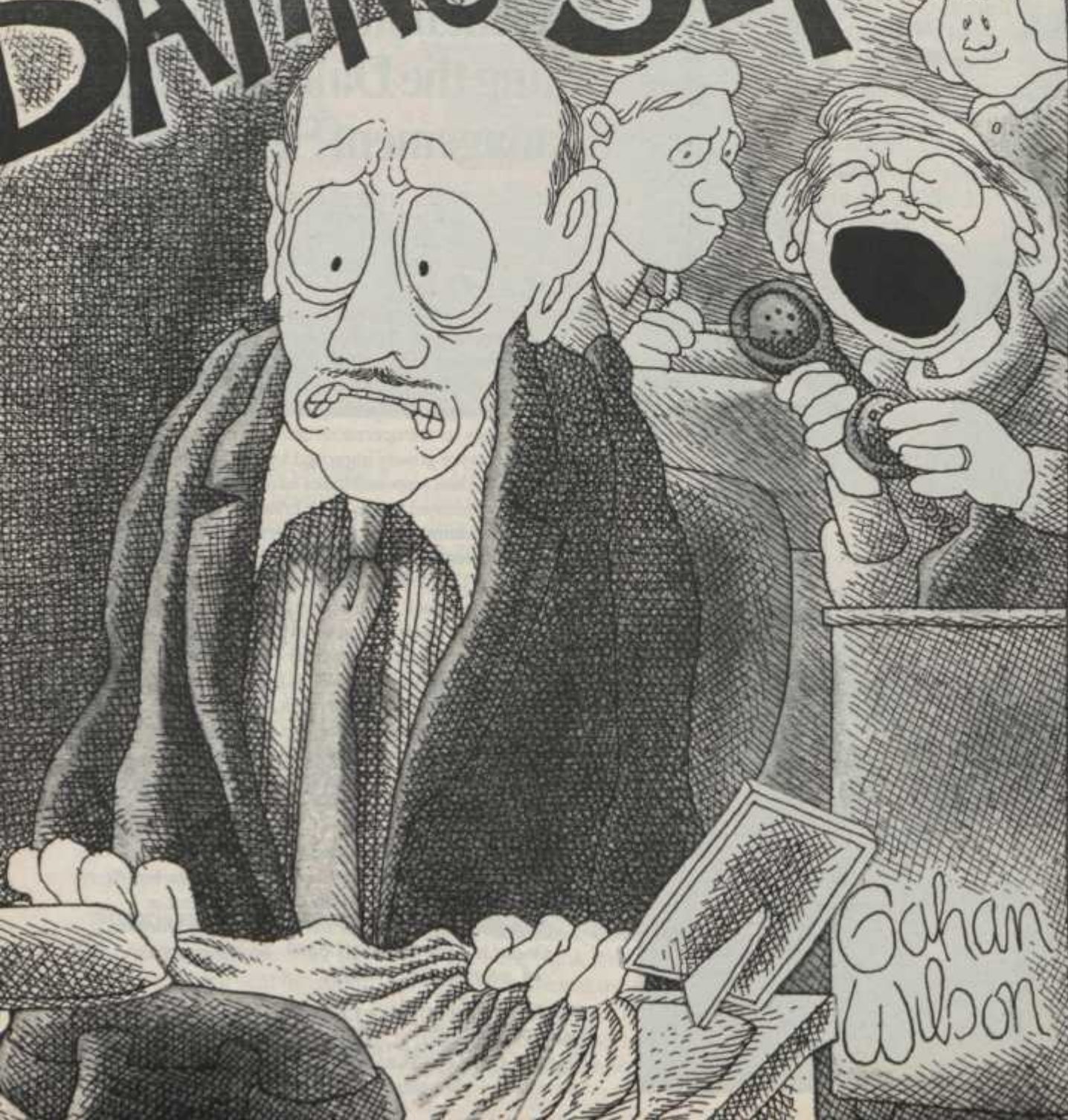


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# MR. MARTIN. IT'S YOUR COMPUTER DATING SERVICE





# Is your private intercom a public address system?



## Your Bell Telephone Company has a private intercom that's built right into your phone.

It's available on the Com Key® phone system by Western Electric. And with it, your secretary can announce your calls over your private speaker, even if you're already on the phone. And you can answer by pushing a button that lets you talk over her private speaker.

You can also reach your employees when you need them. Even if they're on the phone or away from their desks.

And what's best is that everything—microphone and speaker—is built right into the phone unit. So there are no extra boxes

or wires to clutter up your desk.

There are more ways Western Electric's Com Key system can help your business.

### The versatile system

Say you're out of the office and an important client calls. Someone who must talk to you immediately. With a Com Key system, your secretary can call you and connect you to the call, no matter where you are. As long as you're near a phone, you'll never miss important calls.

The Com Key system can eliminate needless meetings and time wasted in repeating information with conference calling. It can keep your confidential calls confidential, with a feature that prevents anyone from accidentally cutting in on your line.

And to prevent employees from wasting time and money, you can control which phones can make outside calls, and

which phones can't. You can even control which phones ring on which lines, to ensure coverage during lunch breaks.

And there are other options you can add. Like the Speakerphone.

Then whenever you are put on hold, you just put the call on the speaker. That frees

your hands to write or consult your files. And when the other party comes

back on the line, you just continue the conversation.

Another time-saving option is the Touch-a-matic® dialer. It's got a memory that stores up to 31 numbers. You dial any of them with the push of a single button.

You can even have your secretary program in the numbers of the calls you have to return.



**Speakerphone lets you do two things at once.**

### Tailored to your needs

Your Bell Telephone Company can tailor a communications system that's just right for your needs—no matter how big or small your business. There are even flexible payment plans to suit your budget.

Plus, every system is backed by the largest and most experienced service department in the business.

And when it comes to making phone systems, nobody knows more than Western Electric. We've been making the telephones that America's depended on for over 95 years.

To find out what the right system is for your needs, call your Bell Telephone Company today.

You'll end up with more than a better business phone system.

You'll end up with a better business.



**Makes calls at the push of a button.**



**Western Electric**

®Trademark of AT&T.

\*Note: Voice quality may decrease depending upon the distance between conferees and the number of persons on the conference call.



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# Nation's Business

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Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

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## THE TRUCK STOPS HERE

The fuel shortage affects the nation's motor carrier industry just like it does the average motorist—high prices, long lines and uncertain supplies. But—transportation regulation assures that even in the face of a national shortage, the freight will continue to move, with no more trucks than are necessary.

The common carrier obligation requires regulated motor carriers to serve all shippers and receivers, regardless of size or location. Fuel shortages and high prices do not relieve

the regulated carrier of this obligation.

Regulation assures a financially stable motor carrier



industry. Carriers are able to purchase fuel-efficient equipment and develop systems which operate with high load factors and minimal empty miles.

Sound regulation of the motor carrier industry thus assures an adequate number of motor carriers to move the nation's freight, without excessive fuel-wasting duplications of service. Deregulation of the industry would create excess capacity resulting in more carriers attempting to haul the same amount of freight and using more fuel.



**American Trucking Associations, Inc.**  
Today's Trucking Industry... It Works for America



# The Nation's Business WASHINGTON LETTER

► **ATTENTION SHIFTS** to Senate this month on windfall profits tax proposal.

Business plan to kill issue died in House, where lawmakers pushed for even stricter tax than President seeks.

But there's hope with the Senate.

Finance Committee remains a question mark; sentiment against windfall profits tax exists on that committee. Also, issue must survive Senate floor vote, and experts say battle is possible.

President Carter's proposed windfall profits tax--in reality an excise tax--is to pick up portion of profits made by oil companies due to decontrol of domestic oil prices. Decontrol began June 1.

Tax receipts would go into fund to help poor and others to defray increased energy costs. Also to be helped from fund: Rapid transit.

► **WINDFALL PROFITS TAX** on oil production could set precedent for similar tax on other commodities.

That's what business experts fear. In fact, they say, if current oil windfall profits tax proposal becomes reality, other similar taxes will surface.

Possible targets: Beef, sugar, wheat, timber.

► **NUCLEAR ENERGY** must be one of four prime energy sources for nation in march toward energy independence, says National Chamber board.

Vote of federation's directors late last month to reaffirm belief in nuclear energy followed Three Mile Island nuclear accident in Pennsylvania.

Three other prime energy sources cited were oil, gas, coal.

► **AMERICANS MUST** make greater use of alternate energy sources to heat their

homes, says Fred A. Hopman, head of Taos Solar Energy Association, N. Mex.

He cites passive solar heating systems as an inexpensive, viable alternative. Passive solar systems do not require motors or moving parts.

Mr. Hopman says 200 homes in Taos get 65 percent or more of their heat from the sun via passive solar heating. Taos homes need same heat as homes in Toronto or Buffalo. He adds that passive solar heating will work anywhere in the United States except Alaska.

ITEM: Energy Department reports more than 15 percent of total U. S. oil consumption goes to heat homes.

► **HEAVY CRUDE AND TAR SANDS**--they both mean oil and lots of it.

United States, Canada, Venezuela each have deposits of heavy crude equal to or possibly more than proven recoverable reserves of Middle East oil.

Low price has been biggest block to producing reserves, but Canada just recently demonstrated it can produce a barrel of heavy crude at less cost than current world oil price.

Canada also is producing oil from tar sands in Alberta, which alone are estimated to hold in-place reserves of 800 billion barrels.

U. S. heavy crude production is expected to increase as world oil price climbs, recovery technology improves, domestic refinery capacity is upgraded and expanded.

► **FIRST LEGAL CHALLENGE** to pregnancy guidelines listed by Equal Employment Opportunity Commission is under way.

National Chamber Litigation Center, on behalf of Kansas client, filed suit late last month in federal district court in Kansas. While EEOC guidelines



are not mandatory, experts say a firm may find itself in court if it does not comply.

Congress last year passed pregnancy disability amendment to Title VII of Civil Rights Act. Amendment became law in October.

EEOC last April listed 32 guidelines at issue in Federal Register. NCLC suit involves only some of the guidelines.

► **DOES YOUR COMPANY** health plan cover spouses of workers?

If so, it should provide pregnancy coverage for wives of employees, says EEOC guideline on pregnancy issue.

Another guideline: If health plan has no lid on expenditures for illnesses such as heart attack, then no financial lid should be placed on pregnancy coverage as it pertains to spouses.

Additional guidelines challenged by NCLC suit cover issue of extended benefits.

► **SENATE VOTES** on Davis-Bacon Act show possible growing Capitol Hill sentiment to eliminate or change the 1930s law.

Senate Armed Services military construction subcommittee last month voted to waive Davis-Bacon in a military construction authorization bill. That vote was sustained by full Armed Services Committee, 11-5.

Both votes are considered victories by business community. Experts say the two votes are first successful challenges to Davis-Bacon. Amendment to waive was introduced by Sen. John Tower (R.-Texas).

Davis-Bacon law requires prevailing wages be paid by contractors on federal construction jobs. Most economists and the General Accounting Office say the law is inflationary.

► **TOUGH, UPHILL BATTLE** remains for business, others seeking to eliminate or change the Davis-Bacon Act.

Labor unions are fighting hard to keep act whole.

In fact, union representatives were much in evidence last month talking to lawmakers just before

full House vote on Davis-Bacon issue.

Davis-Bacon provisions would have been chopped from a money bill if the contingent opposing the act had won. It lost.

NOTE: Prior to House vote on that issue, Banking Committee had voted 19-18 against cut.

► **INCREASED DEPRECIATION** of equipment and plants would be permitted under legislation proposed by two members of House Ways and Means Committee.

Plan is to allow five-year depreciation on equipment, ten-year depreciation on plants and commercial buildings.

Measure, proposed by Reps. Barber B. Conable, Jr. (R.-N. Y.), and James R. Jones (D.-Okla.), is gaining acceptance in business community.

Some tax experts feel plan could help America's dismal performance in capital investment area, that tax savings would go toward new equipment and plants.

America spends less than ten percent of its total income on capital investment. West Germany and Japan spend 15 and 20 percent respectively.

With U. S. equipment growing older, less efficient, America's competitive edge in world markets dwindles, productivity growth declines, and costs go up and up.

► **FEDERAL AGENCIES** with major regulatory responsibilities--there are 56 of them--are budgeted for \$6 billion in 1980, the Center for the Study of American Business, Washington University, St. Louis, reports in a recent study.

In 1971 the federal budget for regulatory agencies was \$1.2 billion.

► **FEDERAL EMPLOYEE PAY**, criticized as too high, will come under increasing congressional attention during this half of 1979 if the head of the Office of Personnel Management has his way.

OPM Director Alan K. Campbell expects hearings on the President's federal pay reform--unveiled in June--to be finished this year, followed no later than early 1980 with Senate, House votes.

Business has commended Mr. Carter for his latest efforts in this area.



# Now you don't have to be a big company to be treated like a big company.

## Introducing "Met 50 Plus": a special group insurance plan for medium-sized companies.

What an idea.

First, your life is simplified with a special field force catering to the needs of companies like yours.


Then it's further simplified with a choice of customized plans that are developed just for your size of company.

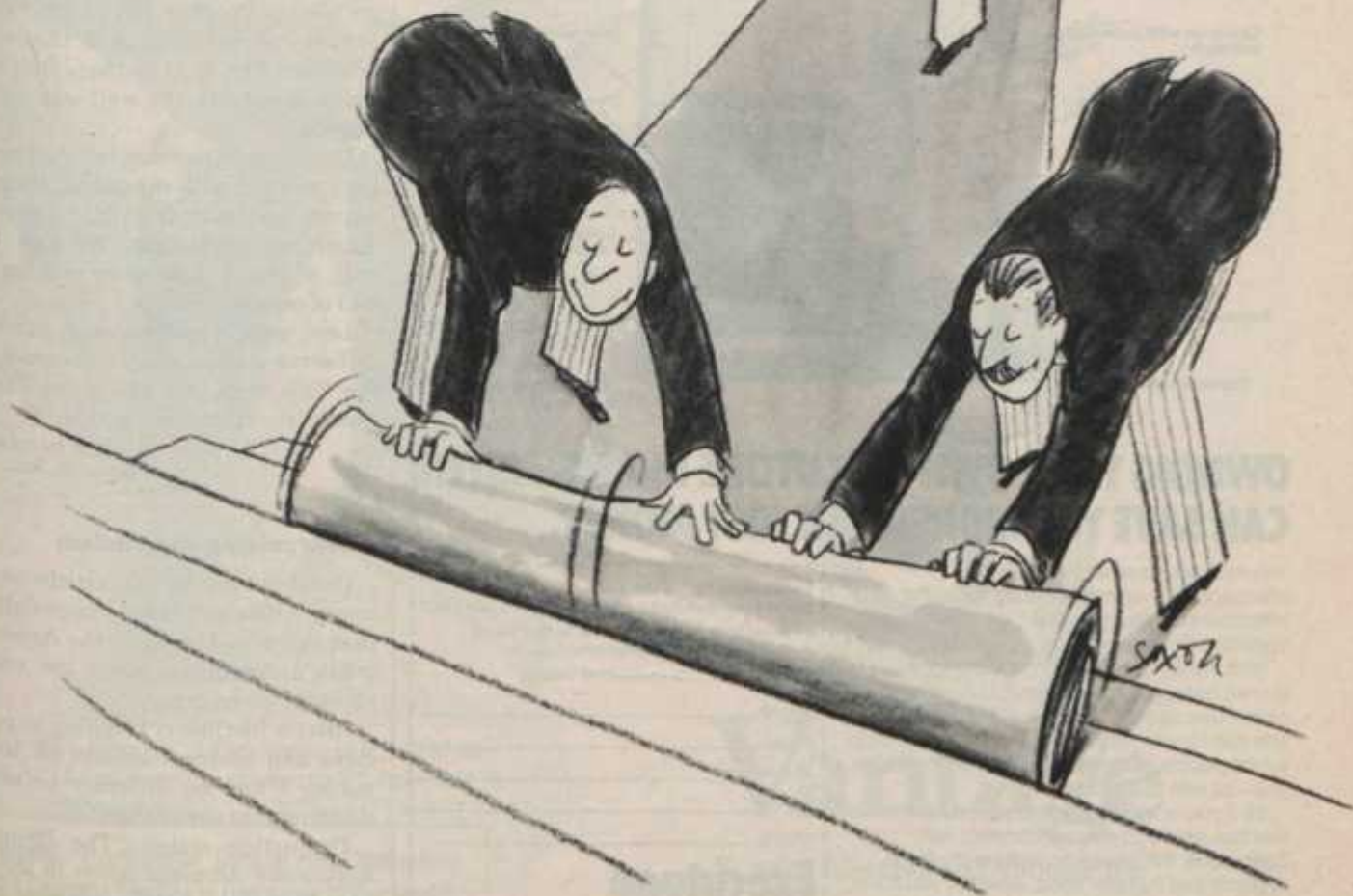
While specially designed to fit the needs and budget of a medium-sized company (50-200 employees), Met 50 Plus benefit plans include the efficiencies normally reserved for only big group insurance customers. That's the best of all possible worlds.

And you get the experience of one of the nation's largest and most responsive group insurers.

From Metropolitan Life, new Met 50 Plus. Life and Health Insurance Plans for medium-sized companies that want big company group insurance coverage.

Contact your insurance broker or Metropolitan Representative for additional information.

 **Metropolitan**





## The Energy Crisis: Made in Washington

In answer to the article, "Energy Mayday: Is Anybody Listening?" [May], how can one help but listen with gasoline prices going up weekly?

If we had wanted an energy crisis in this country, we could not have orchestrated it better.

Five years ago, politicians were introducing legislation to prohibit the small car because it was dangerous.

We banned drilling for oil in Alaska because it would disturb the love life of the caribou.

We banned drilling in the Santa Barbara channel because it might get the beach dirty.

We forbade drilling on government land because "that belongs to the government, not the people."

We took a partisan position in the Mideast, and the Arabs did just what you and I would have done under the same circumstances.

We ordained unleaded gasoline that takes more fuel stocks than leaded and produces a more deadly poison.

We continued a government mandate to drive trucks home empty.

We prevented a pipeline from being built inland from California.

We insult Mexico with its large reserves of petroleum.

We freeze prices to discourage expansion of the oil industry at home.

We make it next to impossible to open a coal mine.

We stall nuclear power and eliminate the breeder reactor.

We penalize the automobile even though some get 28 to 40 passenger miles per gallon compared to 20.7 for the airlines and 9.89 for mass transit.

We make no serious moves to break up the OPEC cartel, but instead hire 17,000 people in the Energy Department.

"Energy Mayday: Is Anybody Listening?" Yes, Washington is listening. And they'll be listening when it is Juneday and Julyday and Augustday. Next year, expect 37,000 in the Energy Department.

W. M. BUESCHER  
Grass Roots Communications, Inc.  
Pigeon Forge, Tenn.

### Playing straight

The energy article observes that the public is skeptical about the reality of an oil shortage.

How right you are. We are indeed skeptical—especially when we hear about oil reserves in our own backyard that equal, if not surpass, the total of all reserves in the Middle East. Reportedly, oil-bearing formations are 30,000 feet thick off the coast of Alaska. The potential is said to be hundreds of billions of barrels, with a recovery rate of up to two million barrels a day.

When one test hole was drilled off an islet in Prudhoe Bay, 2,000 barrels per day spewed out. And that's just one hole. The story is that, instead of being developed, the well was quietly capped.

Until the American oil companies play straight with the public, they can expect no trust from us. Likewise, American politicians. We can take only so much, and we're nearing the end of our patience.

Last week, regular gas at our local self-serve station was 74.4 cents a gallon. This week, it is 84.9 cents. There's absolutely no excuse for this.

PATRICK M. CRANEY  
Evansville, Ind.

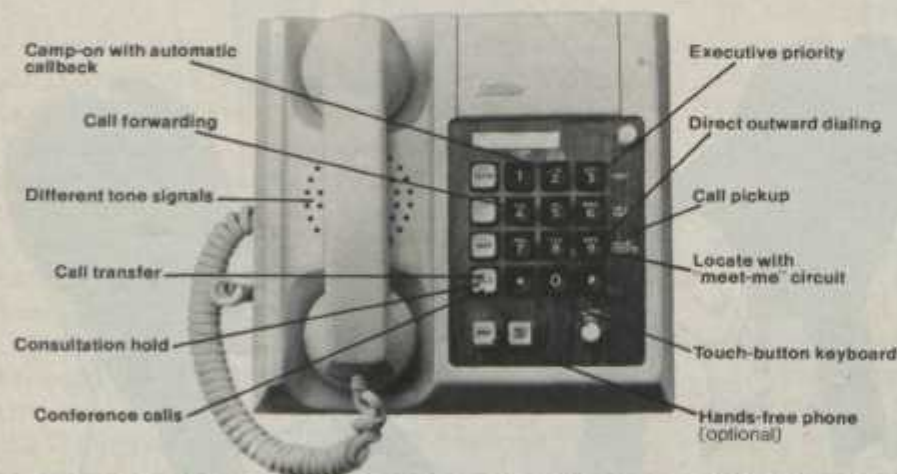
### Unsurprising skepticism

One sentence in the article on the energy crisis aroused my incredulity—that you would consider the American public's skepticism about the energy shortage an enigma.

After a lifetime of listening to politicians and business leaders lie to the public, I find no difficulty in understanding that skepticism.

The article states: "The Economic Regulatory Administration in the Energy Department estimates that gasoline prices could increase by four or

NATION'S BUSINESS • JULY 1979



## OWNING YOUR OWN EXECUTONE PHONE SYSTEM CAN SAVE YOU MORE THAN JUST MONEY.

You may be interested in telephone interconnect systems because they offer such attractive cost savings. But Executone phone systems offer savings and a great deal more.

With the unique Executone telephone shown here, you can improve business communications in many ways. For example, you can forward calls, set up conference calls, locate people, automatically camp-on a busy line—all with push-button speed.

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# 'I didn't sacrifice great flavor to get low tar.'

"The first thing I expect from a cigarette is flavor. And satisfaction. Finding that in a low-tar smoke wasn't easy.

"But then I tried Vantage. Frankly, I didn't even know Vantage was low in tar. Not until I looked at the numbers.

"That's because the taste was so remarkable it stood up to anything I'd ever smoked.

"For me, switching to Vantage was an easy move to make. I didn't have to sacrifice a thing."

*Peter Accetta*

Peter Accetta  
New York City, New York



## Vantage

Regular, Menthol and Vantage 100's.

FILTER 100's: 10 mg. "tar", 0.8 mg. nicotine. FILTER, MENTHOL: 11 mg. "tar", 0.8 mg. nicotine, av. per cigarette, FTC Report MAY '78.

Warning: The Surgeon General Has Determined  
That Cigarette Smoking Is Dangerous to Your Health.



five cents a gallon through 1982." I believe President Carter used this same figure in his energy message in April.

In my area, unleaded gasoline was selling for 76 cents a gallon at the time of the President's speech. Today, the price at the same station is 94 cents a gallon.

It is difficult to see how raising the price of gasoline by 18 cents a gallon in a few short weeks, let alone making us wait in line for it, is going to solve the problem. When you couple that with a 50 percent tax, it is little wonder the people believe the whole thing to be contrived.

MONROE MARLOWE  
Van Nuys, Calif.

#### Those who care

I have been in an energy-related business for the past five years. The question you asked was not quite correct. It is not, "Is Anybody Listening?" It should be: "Who Cares?"

The federal government? It is so wrapped up in bureaucratic red tape it cannot move. The politicians who run our government are more interested in getting reelected than in taking posi-

tive action to solve the energy problem.

The public? Most people either don't care, don't think one person can do anything, want the government to do it, or feel it is all the fault of the other guy or big business.

Local government? It is in the same position as the federal with the additional problem of not being able to move without federal help.

Utilities? Most are monopolies and have little incentive to save. The costs are passed on to the consumer.

Big business? It is difficult to get decisions made and programs started. However, efforts have been made, and the amount of savings being achieved here has begun to show.

Small business? Because of the speed with which it can act and its recognition of the problems, small business is leading the fight to conserve.

Business has done more than its share to reduce energy consumption. Now, however, is no time to quit. There is always some other method to save more of our oil supplies. Most of these methods will pay for themselves.

THOMAS J. YARMEY  
Jet Power Distributors  
Ellington, Conn.

#### Pro...

Congratulations to you for publishing "Salt II is No Salvation" [April] and to James J. Kilpatrick for a beautifully cogent piece of writing.

Armageddon lies agonizingly close unless our leadership recognizes that the Communist Party has forced bureaucracy down the throats of the Russian people and makes no bones of its intentions to ram it down the throats of the rest of the world, including us.

Force is the only philosophy in which the Russians believe, and if we lose the capability to employ counterforce effectively, we are lost.

Hasn't anyone in this administration ever read Russian history?

ALAN J. DAVIS  
Lt. Col. USAF (Ret.)  
Ivy Hollow Farm  
Brogue, Pa.

#### ...and con

James J. Kilpatrick's column on Salt II is the biggest bunch of garbage I have ever read.

His article is not relevant and certainly sheds no light on the Salt II treaty—something which is so important to our survival as a human race.

FERN L. OSBORNE  
Denver, Colo.

## Problem.



According to a government report, three trucks with two-way FM radios can do the work of four trucks without. That's one less truck worth of trouble. And one less truck worth of gas.

FM radios will give you power, clarity and privacy that you'll never get with CB. And all for as little as a dollar a day per radio.

So send us the coupon below. And solve your energy crisis.



Fill me up with info about Johnson Two-Way FM Radios.

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**JOHNSON**

RADIO PRODUCTS DIVISION

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## Solution.





## National Health Needs a Private Prescription

**Y**OU CAN HEAR the horror stories being swapped in almost any bull session, bridge club, or locker room: So-and-so is just back from the hospital, and can you guess what the bill was? Just under \$2,000! Or maybe \$2,500.

In the summer of 1979, three concerns dominate the American scene. The first is inflation, which now spreads like cancer through the body politic. The second is gasoline, the very nectar of our national life. The third is the soaring cost of medical care. Everything else—crime, drug abuse, big government, the perils of public employee unionism—dwindles in importance. The three overriding concerns share a common denominator—the prospect of ever increasing government control. Let me set aside the problems of inflation and fuel and look instead at concern number three. In some fashion we must get a handle on health and hospital costs. Either we find workable, affordable solutions in this area or we slide into socialized medicine in the pattern of Britain's national health service.

The case in favor of national health insurance in the United States rests upon a few simple premises: That significant numbers of our people have no health insurance at all; that costs of hospitalization are rising more rapidly than other expenses; that medical care demands an increasing share of the family budget; and that only through a combination of new taxes and new controls can a comprehensive system of health care be provided.

This is the argument grandly advanced by Sen. Edward M. Kennedy (D-Mass.) and propounded on a slightly less dramatic scale by President Carter. The broad principles of Mr. Carter's health bill suggest that only matters of timing distinguish one plan from the other. The details of Sen. Kennedy's proposal prove that the senator, as they say, thinks big.

**A**T A PRESS CONFERENCE, Sen. Kennedy laid down five principles for his Health Care for All Americans Act. These are comprehensive benefits, universal coverage, the strongest possible cost controls, system reforms to encourage preventive medicine and prepaid group practice, and quality controls.

It will not escape your notice that two of the five principles carry an ominous ring: Controls. The senator embraces the prospect. He believes, as does Mr. Carter, that only through firm federal controls can the whole elaborate scheme of national health insurance be made to work. With the right kind of controls, he insists, "within four years of passage the nation will begin to spend less on health care under this plan than if no bill is passed." But Sen.

Kennedy would have us know that his plan "minimizes the requirements for a new administrative bureaucracy." No plan, he says, will have a simpler administrative structure than his.

Maybe so, maybe so, but a large skepticism cannot be easily dispelled. When the senator says comprehensive, he means comprehensive. "Every resident of the United States will be issued a health insurance card." The labor of issuing, filing, replacing, correcting, mailing, and generally keeping up with 220 million cards would appear to require more than a couple of file clerks and a superintendent, but let it go.

**T**HE KENNEDY PLAN may be divided into two parts, euphemistically identified as the federal sector and the private sector. The federal sector would include upgraded and expanded programs of



Medicare for the elderly and Medicaid for the poor. At present, these outlays amount to roughly \$51 billion a year; the senator would increase them to \$79.6 billion. The private sector would cover everyone else. According to the senator's reckoning, people now spend \$120.4 billion for health insurance; that figure would go to \$131.8 billion. It seems a remarkably small increase for all the goodies that would be provided under the senator's uniform schedule of universal benefits.

The \$28.6 billion in added costs for Medicare and Medicaid presumably would be financed through taxes paid into the general fund. The \$131.8 billion for the private sector would be financed by a levy upon employers equal to seven or eight percent of their total payroll, "depending upon the success of cost containment programs." All funds from federal taxes, state taxes and payroll levies would be



combined, budgeted, allocated, and paid out according to a complex system under a health resources distribution fund. Within the private sector, payments would be made by existing insurance carriers such as Blue Cross-Blue Shield or by new consortiums and health maintenance organizations.

The senator proposes extensive benefits for everyone, and these would be first-dollar benefits. He rejects the idea of deductibles. With a few exceptions, the minimum standard contracts would have to provide unlimited inpatient and outpatient hospital services. The plan covers unlimited physician services, again with a few exceptions. Hospitals and doctors would be compensated according to agreements negotiated at state levels and approved in Washington. There would be nursing services, home health services, free prescription drugs, prosthetic devices, ambulance services, speech therapy, dentistry, optometry, and the removal of corns and calluses.

**O**VER THE ENTIRE PANOPLY of taxpayers, employers, patients, doctors, hospitals, insurance carriers, and bureaucrats would be a supreme National Health Insurance Board. A majority of its members, says the senator, would be consumer representatives.

There is much more to Sen. Kennedy's proposition—he provided the working press with a brief personal statement, a list of organizations supporting his plan, a summary of the act, a longer analysis of the act, and a 59-page analysis of the analysis—but this will suffice to indicate the broad outlines. By 1983, if the senator has his way, all Americans and resident aliens and foreign visitors to boot would be embraced within a comprehensive system of national health insurance. The healing arts would then be subject to rules, regulations, and controls. No aspect of hospital construction, equipment, staffing, or operation would be exempt from federal decree. In theory, doctors and insurance companies could remain aloof from participation; in theory, every American could make choices "among the best health plans our nation has to offer." In fact, virtually everyone would be folded into the one encompassing Kennedy plan. And vast as it is, this would be only the beginning of free medical care from cradle to grave.

In one sense it is an error to dwell at such length upon the senator's grandiose bill. It could not command 25 votes in its present form. Even so, the Kennedy plan provides an unmistakable road map of where the senator and his coalition of 64 organizations—mostly unions—would like to take us.

**A**RE THE PEOPLE clamoring for national health insurance? If they are, it is the quietest clamor ever heard. Some months ago, CBS News and the *New York Times* ran a poll. They asked a beautiful question: "Do you agree or disagree that the government should help people to get doctors and hospital care at low cost?" Remarkably, only 81 percent of the people agreed with that happy thought; a less critical sample might have produced 95 percent agreement. But then NBC News

ran a poll with a different question: "Do you favor or oppose a national program of health insurance paid by the government through increased taxation?" The tally found 36 percent favoring, 48 percent opposing, and 16 percent not sure. NBC persisted and asked: "What is the most you are willing to pay per person in your family for a program of this sort?" Eighteen percent said nothing, and another 16 percent were willing to pay no more than \$100 per person. More than half the respondents were not sure. Perhaps the idea of actually paying for health insurance had not crossed their minds.

**E**VIDENCE OF NEED is as shaky as evidence of demand. More than 165 million people under 65 are now protected by one or more forms of private insurance. Another 25 million over 65 are under Medicare. Still other millions are served by Medicaid. Perhaps eight to ten million people are not covered. To discard a working public-private system that serves 95 percent of our people in favor of a controlled and regimented plan to sweep up the remaining five percent is surely a venture demanding the most careful thought. It strikes me as pure folly.

Alternatives are available. Among the horror stories of hospital bills, none is more terrifying than a tale of catastrophic medical expense—the kind of expense that wipes out a family's savings altogether. On the Democratic side, Sen. Russell Long of Louisiana is pushing a bill for catastrophic coverage. Three Republicans—Dole of Kansas, Danforth of Missouri, and Domenici of New Mexico—are also working on the catastrophic approach. Sen. Robert F. Dole's idea is to cover expenses in excess of, say, 15 percent of a family's annual gross income.

The idea has appeal, but the approach echoes the fable of the camel's nose inside the tent. Once on the books, a catastrophic act could be sweetened and expanded in every election year until it metamorphosed into a Kennedy plan.

**T**HE BETTER ALTERNATIVE is for the medical profession to get its house in order. Hospital costs can be reduced without significant loss of quality care. A hundred examples could be provided of successful efforts to save money—group purchasing, group laundry, improved financial management, shared data processing facilities, the shutdown of beds that manifestly are not needed. Many doctors and hospitals are working together to eliminate needless diagnostic tests and to reduce the number of surgical procedures. By voluntary efforts, federal mandates for cost containment may yet be averted.

The battle over national health care strikes me as a watershed point. Most new health insurance policies now protect against the catastrophic risk. Private coverage continues to improve in variety and security. If this progress can only be maintained, the hot air will leak from Mr. Kennedy's balloon. But once Congress commits the country to any form of nationalized health insurance, it is downhill all the way. □



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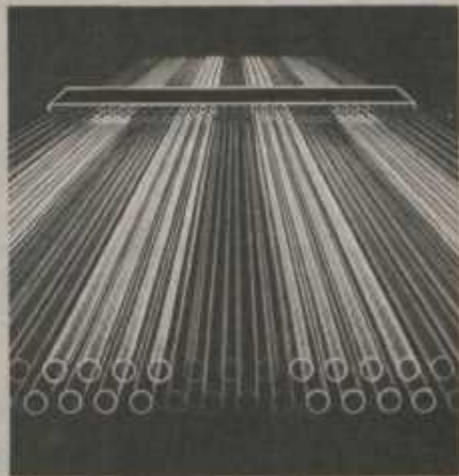
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## ECONOMY

### Productivity Boost Would Cut Spending

A ten percent increase in productivity in the government would cut federal spending by as much as \$8 billion a year, according to a report by the congressional Joint Economic Committee.

JEC Chairman Lloyd Bentsen (D-Texas) says: "Productivity is as important to saving tax dollars in the government sector as it is to combating inflation in the private sector."

Sen. Bentsen noted that the study found a disturbing lack of a coherent system for measuring productivity in government.

Also, public workers "have less confidence in their supervisors than workers in private industry," feeling that their

efforts are less likely to be rewarded.

According to the study, productivity in the federal government increased by an average annual rate of only 1.3 percent during 1967-77; the rate in the private business sector grew by 1.7 percent annually.

Low productivity has been blamed for inflated costs in all parts of the economy, and U.S. productivity levels have fallen far behind those of Western Europe and Japan.

### Natural Gas Forecasts: Plentiful Supplies

The outlook for natural gas supplies this winter is one of the few bright spots in the nation's energy future these days.

Natural gas for home heating generally will be abundant, and the likelihood of spot shortages will be slim, even in heavy user areas such as the Northeast, according to George Lawrence, president of the American Gas Association. Moreover, gas supplies will probably increase over the next three to five years.

One reason for the positive forecast is that a law passed last December enables gas to be sold on the interstate market at prices competitive with gas sold on the intrastate market. Result: Producers are making more gas available throughout the country.

John Kean, chairman of the American Gas Association, says gas well completions in the first quarter of 1979 were 26 percent higher than during the same period last year.

"Furthermore, deep well drilling in 1978 was up 60 percent over the previous year because producers anticipated congressional approval of price deregulation," Mr. Kean says.

Gas supplies 26 percent of the national energy market. Mr. Kean, who is also president of National Utilities & Industries Corp., says that obtaining increased supplies won't come cheaply.

"We estimate the capital needs of the gas industry between now and the turn of the century at more than \$300 billion with \$215 billion going toward development of new supplies."

## CORPORATIONS

### FTC's Bill Would Reduce Merger Sizes

Michael Pertschuk, Federal Trade Commission chairman, is alarmed by the recent rapid increase in conglomerate mergers.

There were 24 mergers valued in excess of \$100 million in the first quarter of 1979, almost double the number in the same period the year before and more than three times the number announced during the first quarter of 1977.

"The danger posed by the surge toward increasingly larger firms is encroachment upon the viability of bedrock institutions: A free market, a responsive political system, a pluralistic society," Mr. Pertschuk says.

Legislation recommended by the FTC would not prohibit mergers and would probably affect only about 230 of the largest companies in the United States. The commission's approach would require that a company merging with another company having more than \$100 million in sales divest itself of assets comparable to the acquired firm within a specified time.

### Bill to Legalize Interest on Checking Accounts

Congress has only six months to overturn a court decision that outlawed the use of automatic fund transfers and share drafts by financial institutions.

The court gave Congress until 1980 to enact legislation that would make offering interest on checking accounts legal.

Fernand St Germain (D-R.I.), chairman of the House Banking subcommittee on financial institutions, has introduced legislation that would allow banks and thrift institutions to offer more uniform checking account services and pay interest on the accounts.

While there is industry support for the bill, the American Bankers Association's



Winter natural gas outlook: Good, even in the Northeast. Gas supplies will increase over next three to five years.



ation and many of the thrift institutions want the legislation to cover a wide range of institutional questions such as reserve requirements for Federal Reserve banks.

This, say sources on Capitol Hill, could slow down the legislation considerably.

But Jake Lewis, a committee staffer, predicts that the deadline will be met and the legislation will result in "a rational approach to consumer accounts."

The St Germain bill, says Mr. Lewis, will "simplify interest bearing checking for the consumer rather than giving him gimmicks."

## SMALL BUSINESS

### Loans for Firms Near Three Mile Island

Five counties surrounding the Three Mile Island nuclear power plant have been declared an economic injury area. Although there was no physical damage to property, disaster loans will be made available to firms that suffered business interruptions caused by the nuclear accident.

According to the Small Business Administration, the counties of Dauphin, Cumberland, York, Lancaster, and Lebanon are eligible for either direct, immediate participation or guaranteed loans not to exceed \$100,000. Direct loans will be available at 7% percent interest, immediate participation loans at up to 11 percent, and SBA guaranteed loans at up to 12 percent interest. All loans will be processed through the Harrisburg district office.

### SEC Eases Rules on Equity Securities

The Securities and Exchange Commission, in its latest attempt to boost confidence, has eased requirements for small companies to sell securities in the equities market.

The new registration form, the S-18, will be available to companies with less than \$1 million in assets and fewer than 500 shareholders.

Financial sources in New York describe the move as long overdue. Although there is a good market for these securities, they say, small firms have shied away from the public market because of the cost and red tape involved in filing with the SEC. In

1978, only 376 companies attempted to enter the market, down from 1,298 ten years ago.

According to Mary E. T. Beach, director of the commission's Office of Small Business Policy, the change will allow small firms to raise up to \$5 million in the public market and will substantially reduce the legal and accounting costs of new issues.

### Minority Firm Loans Mishandled, Audit Shows

An external audit by the Inspector General's Office of the Small Business Administration finds that as much as \$17 million of the \$61 million loaned to minority firms last year may not be collectible.

The report says the advance payment method of funding at least 143 subcontractors has been improperly managed by SBA's field offices. About 78 percent of the potential \$17 million may be lost through the New York office, the report says, because of problems regarding operating controls.

Losses occur because field offices fail to follow the standard operating procedure for advancing payments, inade-

quately document loans made, and fail to identify delinquent accounts.

As a remedy, auditors suggest that SBA designate an individual within each regional office to monitor and control loan transactions, standardize the loan form for all field offices, and require subcontractors to submit a compensation agreement for each contract.

SBA will also consider minority groups other than blacks, Hispanics, or native Americans as socially and economically disadvantaged for its subcontracting program. Application procedures for such minority groups have been published in the *Federal Register*.

## AGRIBUSINESS

### \$5.3 Billion Plan for Energy Independence

President Carter has unveiled a series of federal programs costing \$5.3 billion to help make the nation's rural areas more energy self-reliant.

The programs, including a plan to fund 100 small gasohol plants, are in-



Hydroelectric dams such as this one in Nevada will get more federal attention through President Carter's plan to renovate small energy projects in a \$5.3 billion program to help make the nation's rural areas more energy self-reliant.



# OUTLOOK

tended to ensure that oil shortages will not disrupt U.S. agricultural production. But, says Paul Truitt, executive vice president of the Agricultural Research Institute, unless the farmer can get the fuel he needs when he needs it, no amount of fuel supplies will do any good.

"The price of alcohol will have to drop significantly before it can be phased into the market as a gasoline extender on a wide scale," he says.

Other programs in the \$5.3 billion series include grants and loans to renovate small hydroelectric projects, 1,000 job positions under the Comprehensive Employment and Training Act for rural residents to construct the gas-ohol plants, and for integrated economic development and energy production plans.

## INTERNATIONAL

### Foreign Banks May Sidestep Regulation

Foreign banks are preparing a spectacular entry into the U.S. commercial paper market.

These banks may be able to borrow money in the \$94 billion commercial paper market while avoiding the stiff requirements the Federal Reserve plans to impose on the U.S. branches of foreign banks.

The Securities and Exchange Commission will allow a \$30 million sale of short-term IOUs by an Australian bank. Several French and Scandinavian banks are seeking similar SEC approval. Private analysts feel that as many as 20 foreign banks will soon file with the commission for approval.

Under a law passed last year, the Federal Reserve plans to set up reserve requirements to cover deposits in U.S. branches of foreign banks. But U.S. bankers complain there are no such plans for foreign banks in the commercial paper market, giving the foreign banks a competitive edge.

According to a report by Salomon Brothers, the 305 foreign institutions operating in the United States had assets of \$129.5 billion at the end of last

year, a 38 percent increase over the previous year. The heaviest gains were in commercial and industrial loans, which rose 45 percent, the report says.

In addition, the 35 largest U.S. bank holding companies showed a 27 percent income gain before securities transactions which, according to the report, is the largest one-year advance since World War II. This year, bank holding companies are expected to increase earnings by 14 to 16 percent.

## TRENDS

### Defense Seeks More Control Over Contracts

Defense Department officials want to tighten the chain of command for administering the department's contracts, but opposition may surface from the three branches of the armed forces.

The Army, Navy, and Air Force now administer certain contracts that each service feels are unique, including weapons systems and shipbuilding. The Marine Corps' contracts are administered by the Navy.

The rest of the contracts are handled by the 17,000 military and civilian employees of the Defense Logistics Agen-

cy, which currently administers 230,000 contracts valued at about \$68 billion and covering everything from missiles to coffee urns.

The proposed policy changes, presented recently to a subcommittee of the House Appropriations Committee, would give greater independence to the individual services in day-to-day activities but would centralize policies, procedures, and the chain of command under the Defense Department. The change, sources say, could diminish some control over contracts currently administered by the individual branches of the military.

A Defense official says the primary reason for the proposed change is to standardize contract administration activities and reduce management and overhead costs. The proposal is in the talking stage with no action expected until the fall.

### "Painful but Right" Curbs on Regulators

Legislation now in both houses of Congress could drastically affect the operations of the Federal Trade Commission.

Two major regulatory reform bills before the Senate will be painful to comply with, says FTC Chairman Mi-



A major storm may develop over how the Defense Department administers contracts for defense procurement. The three branches of the armed forces administer certain contracts that each service feels is unique to it.



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## AETNA LIFE & CASUALTY

Aetna Life & Casualty—largest investor-owned insurance organization in U.S., with interests also in business financing, real estate development and investment management. 1978 earnings reached a new high of \$518 million or \$9.58 per share on revenues of \$9.5 billion. Assets and shareholders' equity grew to \$24.3 billion and \$45.42 per common share, respectively. Annual dividend per common share increased to \$2.70 with May 15, 1979 payment; and a 3-for-2 split of common stock approved April 27.



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# OUTLOOK

chael Pertschuk, but are right in requiring regulators to consider the effects of their actions. He says that both bills are "thoughtful, carefully crafted responses to well-documented problems."

In the House, a bill introduced by Rep. James Broyhill (R.-N.C.) would give Congress veto authority over FTC rules.

## PERSONAL BUSINESS

### New Method to Settle Claims

As the size of jury awards in liability cases increases, the insurance industry is urging more frequent use of a new claims settlement technique.

Known as structured settlement, it provides periodic payments on a regular basis to guarantee lifetime financial security to some claimants. This system, proponents claim, is preferable to the lump sum payment, which most claimants spend quickly.

According to Robert Somers, senior vice president of the Home Insurance Co., the structured settlement technique avoids "shock verdicts" and saves costs for the insurer when applied to the kind of cases for which it is intended—those where life is threatened and a potential for catastrophic loss exists.

### Successful Executives Are Found Healthier

The coronary-prone, hypertensive, alcoholic executive is a myth.

In fact, as a group, business executives are healthier than other workers, reports *Executive*, a magazine published by the Cornell University Graduate School of Business.

Sociologists, psychologists, and medical researchers generally agree that health is closely related to socioeconomic status—the higher the status, the lower the mortality rate.

The magazine found that for executives, the mortality rate from tuberculosis, influenza and pneumonia, cirrhosis, and suicide is not as high as

that in lower socioeconomic groups. Executives are also less prone to coronary disease than other workers.

### Chief Victims of Regulation

Which industries are the most severely affected by federal regulation?

The Regulatory Council, set up by President Carter to assess and reduce regulatory costs, says the impact has been greatest on the automobile, iron and steel, hospital, and banking industries. Others feeling the sting of the federal watchdog are nonferrous minerals, coal, paper, and utility companies.

The council, established late last year, has only ten employees and plans to stay small. "We don't need a new study of the auto industry," says John Freshman of the council staff. "What is needed is an interagency perspective so that government can do a better job of assessing costs and benefits."

### Congress Will Take Country Out of Clubs

At least one acknowledged legislative mistake—eliminating club dues as a business deduction—is due to be corrected by Congress soon.

"Although the Revenue Act of 1978 disallowed certain deductions for yachts and hunting lodges, Congress agreed to permit club dues to continue as a business deduction when they were business-related," says Jack

Dinger, director of taxes in the Philadelphia office of the accounting firm of Laventhol & Horwath. "However, the law erroneously included the word country before club, which seemed to indicate that only country club dues were deductible," Mr. Dinger says.

Congress intended social, athletic, and sporting club dues to be deductible. Mr. Dinger expects the law to be corrected by October.

## TRANSPORTATION

### Lower Airline Profits Predicted for 1979

Airline profits are likely to take a beating this year, with some analysts predicting as little as half of 1978's \$1.2 billion.

The prediction was originally based on the increased use of discount fares, but further compounding the profit problems were the two-month United Airlines strike earlier this year and the crash of a DC-10 jet and subsequent grounding of the entire domestic fleet of 138 aircraft.

The grounding of the McDonnell-Douglas aircraft demonstrates the nation's dependency on commercial airlines for intercity transportation. This plane comprises six percent of the total domestic fleet and three percent of the number of flights. During 1978, DC-10s carried about 33,000 passengers and brought in about \$7 million a day in passenger and freight revenue. □

PHOTO: BILL OSIMIR



Scheduled air carriers: Profits for 1979 are predicted to be perhaps half of 1978's \$1.2 billion. Main reasons are discount fares, the United strike, and the DC-10 crash.





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PHOTO: U. S. AIR FORCE

Mainstay of the land-based force is Minuteman, which unleashes multiple independently targeted warheads.

PHOTO: LEE LOCKWOOD—BLACK STAR



In addition to building up their strategic forces rapidly, the Soviets have awesome ground forces.

PHOTO: FRANK ZIMMERMAN—BLACK STAR



Development of the U. S. air-launched cruise missile was one of the many controversies in the SALT II talks.

A major deterrent to surprise attack is America's fleet of nuclear submarines; each can launch 16 missiles while submerged.



# SALT II: Peppered With Problems

By Bob Aaron  
and Barry Crickmer

With a grim "nyet," Soviet President Leonid Brezhnev handed Jimmy Carter his first diplomatic setback—a setback it took the President more than two years to recoup.

The scene was a Kremlin conference table ringed with high-ranking U.S. and Soviet diplomats including an optimistic Secretary of State Cyrus Vance and a somber Foreign Minister Andrei Gromyko. The time was March, 1977.

On the table were two proposals to curb nuclear arms, offered by the three-month-old Carter administration and rejected by the suspicious Soviet leaders. In a rare news conference, called after Mr. Vance's abrupt departure from Moscow, Mr. Gromyko labeled the American plan "a cheap, shady maneuver."

## Peripheral issues

The rejection chilled U.S.-Soviet relations. Both sides began a new round of talks, which were often clouded by peripheral issues such as the plight of Soviet dissidents, the Carter administration's human rights policy, Soviet and Cuban adventurism in Africa, and U.S. recognition of the Chinese government in Peking. The Soviets were testing the toughness of the new American government—not unlike the way Nikita Khrushchev sized up a youthful John F. Kennedy in Vienna in 1961.

Last month, U.S. and Soviet leaders again met in Vienna. This time Mr. Brezhnev and Mr. Carter signed a pact placing stricter limits on their arsenals of nuclear weapons.

That agreement, the strategic arms limitation treaty or SALT II, faces hard questioning in the Senate, where

67 lawmakers must approve it. Several House committees will also dissect SALT II, and Capitol Hill may produce the bitterest foreign policy debate since Woodrow Wilson's losing struggle 60 years ago to win U.S. approval of the League of Nations and the peace treaty ending World War I.

According to Senate Majority Leader Robert Byrd (D-W.Va.), skepticism focuses on two blunt questions: "Is this agreement better than no agreement?" and "Can the United States be sure that the Soviets are complying with its terms?"

The fight over SALT II is the Carter administration's second treaty clash with the Senate. The first involved the Panama Canal treaties, which the Senate—a more liberal body before the 1978 elections—grudgingly approved by a single vote. With the new, more conservative lineup in the Senate, prospects for SALT II are far from certain, says Sen. John Glenn (D-Ohio), a member of the Senate Foreign Relations Committee and congressional adviser to the SALT talks.

"It takes a two-thirds vote to get a treaty through the U.S. Senate, which means that opponents have to get only 34 votes and it's dead," Sen. Glenn says.

## Buzz words

"You can count right now about 20 senators who aren't going to vote for SALT II just because it's Russian, commie, pink, simp, godless communism—all the buzz words, and there are 20 to 23 solidly against it even with verification."

SALT II cannot be evaluated intelligently without understanding the history of the superpowers' military



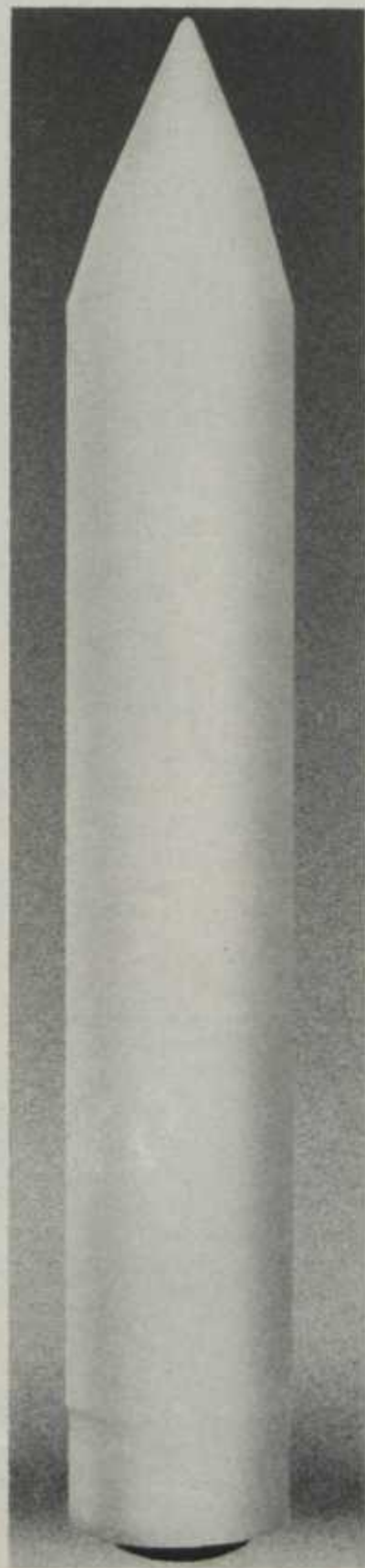
Trident, the newest submarine-launched ballistic missile, is scheduled to be operational late this year.

strategies. In the mid-1960s, the United States slowed development of new strategic weapons, cut back its civil defense program, and dismantled most of its antiaircraft capability. During the same time, the Soviet Union accelerated weapons development and production, built formidable antiaircraft defenses, and launched an ambitious civil defense effort.

When Robert McNamara was Secretary of Defense, the United States adopted a policy of mutual assured destruction, MAD for short. This policy is based on the belief that nuclear war will not happen if each side knows that its civilian population is hostage to the strategic nuclear weapons of the other,



# The ABCs of Weaponry



## **ALCM: Air-Launched Cruise Missile**

A cruise missile designed to be launched from an aircraft.

## **ASBM: Air-to-Surface Ballistic Missile**

A ballistic missile launched from an airplane against a target on the earth's surface. For the purposes of SALT II, an ASBM is considered capable of a range in excess of 600 kilometers when carried by an aircraft.

## **ICBM: Intercontinental Ballistic Missile**

A land-based fixed or mobile rocket-propelled vehicle capable of delivering a warhead to intercontinental ranges. Once they are outside the atmosphere, ICBMs fly to a target on an elliptical trajectory. An ICBM consists of a booster, one or more reentry vehicles, possibly penetration aids, and, in the case of a MIRVed missile, a post-boost vehicle. For the purposes of SALT II, an ICBM is considered to be a land-based ballistic missile capable of a range in excess of 5,500 kilometers.

## **MIRV: Multiple Independently-Targetable Reentry Vehicle**

Multiple reentry vehicles carried by a ballistic missile, each of which can be directed to a separate and arbitrarily located target. A MIRVed missile employs a post-boost vehicle or other warhead-dispensing mechanism. For SALT II, MIRVed ICBMs, SLBMs, and ASBMs are defined as those which have been flight-tested with two or more independently-targetable reentry vehicles, regardless of whether they have also been flight-tested with a single reentry vehicle or with multiple reentry vehicles which are not independently targetable.

## **SLCM: Sea-Launched Cruise Missile**

A cruise missile launched from a submerged or surface ship.

## **SLBM: Submarine-Launched Ballistic Missile**

A ballistic missile carried in and launched from a submarine. For SALT II, SLBM launchers are those installed on any nuclear-powered submarine or launchers of modern ballistic missiles installed on any submarine, regardless of its type. Modern U.S. SLBMs are missiles installed in all nuclear-powered submarines made operational since 1965.

## **ICBM Launchers**

There are two categories of ICBM launchers, fixed and mobile. Fixed ICBM launchers are traditionally either soft, where the missile and most of its launch equipment remain aboveground, or hard, where the missile and most launch equipment are contained in a hardened underground silo. In both cases the launcher is in a fixed location.

and that neither side can change this situation by striking first.

To achieve maximum stability, according to the MAD theory, civilians must be largely undefended from nuclear attack, and each side must have enough nuclear force to destroy the other side, even after suffering a surprise attack.

## **Strategic parity**

Once these conditions are met, additional strategic weaponry is not needed. Hence, the unilateral U.S. reductions. When the Soviet Union reached strategic parity with the United States, it was expected to curtail its own arms development programs and settle down to a stable life under the balance of terror. But that did not happen.

At the time of the Cuban missile crisis in 1962, the Russians had about 70 weapons capable of inflicting nuclear damage on this country, compared with 2,000 then in the U.S. arsenal.

The nuclear ante has been hiked considerably since the East-West showdown over Cuba. According to a U.S. Arms Control and Disarmament Agency spokesman, the nation now has stockpiled about 9,200 strategic nuclear warheads, while the Soviet arsenal bulges with about 5,000 such weapons. As the number of warheads has grown, so has their firepower.

Each missile-firing Poseidon submarine, one part of the U.S. nuclear bomber and missile fleet, can hit up to 160 separate targets with individual warheads, according to Leslie Gelb, director of the State Department's Bureau of Politico-Military Affairs.

"Each of these warheads," he explains, "has almost three times the destructive power of the bomb dropped on Hiroshima."

## **Feverish activity**

The lesson the Russians apparently learned from the Cuban confrontation was that there were advantages to being No. 1, even in a MAD world. They began a major military endeavor that experts say has been growing at three to eight percent a year, while U.S. defense spending has declined in real terms. The present Soviet military budget is said to be 40 to 80 percent larger than America's.

To date, this feverish activity has bought the Soviet Union uncontested superiority in conventional forces and a rough parity in nuclear weaponry.

"What causes us concern," says President Carter, "is not the current

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balance but the momentum of the Soviet strategic buildup. At some future point, the Soviet Union could achieve a strategic advantage—unless we alter these trends."

Others share this concern, and some of them fear the United States will become strategically inferior to the Soviet Union in the early 1980s no matter what this nation does now, with or without a SALT II treaty.

Critics of the pact, like Sen. Sam Nunn (D.-Ga.), charge that rather than paring Soviet military strength, the SALT II agreement might allow the Soviets to slip into a superior position. "I agree with those who believe that arms control is a moral imperative," Sen. Nunn says. "However, we cannot hope to obtain effective arms control agreements in the 1980s and 1990s in the shadow of Soviet military domination."

"The Soviet Union," he adds, "has eliminated the decisive advantages we enjoyed in strategic nuclear armaments and appears to be embarked upon a drive to obtain nuclear superiority."

#### Upper limit

Why did the United States allow the Soviet Union to achieve such strength? Former Secretary of State Henry Kissinger told the *Economist* magazine: "The first agreements occurred after our predecessors had unilaterally stopped our buildup in the 1960s, based on a theory, which I then shared, that there was an upper limit beyond which additional strategic forces made no sense."

"In the early 1970s, in the face of an ominous Soviet buildup, the administration in which I served sought to reverse this process. But under the impact of the Vietnam turmoil, its defense programs were being cut by Congress every year."

"Every new weapons program we put forward was systematically attacked or dismantled. As a result, starting in 1970, the Defense Department was pleading with us to negotiate a freeze on the Soviets lest the disparity in numbers continue to grow."

The SALT I Interim Agreement of 1972 was indeed a freeze. It banned nationwide antiballistic missile systems and limited the number of missile launchers (submarine and land-based) to those existing or under construction in 1970. That worked out to 1,710 for the United States and 2,347 for the Soviet Union, a disparity that upset American hawks.



Development of the cruise missile will give the Air Force B-52 bomber fleet added muscle. The jet-powered missiles will be carried internally, and an extra dozen could be launched from the wing pylons.

In approving SALT I, the Senate also adopted an amendment by Sen. Henry M. Jackson (D.-Wash.) directing the President to seek equal limits in any future treaty.

Equal limits of 2,400 strategic nuclear delivery vehicles were established at the Ford-Brezhnev meeting in Vladivostok in 1974. Rapid progress toward a SALT II treaty was expected to follow, but discussions bogged down over what types of weapons should be counted in the 2,400 ceiling. The compromises negotiators reached are a major source of controversy today. The Vladivostok understanding itself was criticized by doves for setting a limit so generous that neither side had reached it at the time.

However, SALT II does break new

ground. Secretary Vance points out that "... the treaty provides for the first time equal ceilings for strategic weapons on both sides ... the reduction of strategic weapons by both sides to agreed levels ... and limits not only on the quantities of weapons but also on the quality of weapons and the qualitative improvement of weapons."

The complicated arithmetic and alphabet of SALT II look like this: Initially, each country is limited to 2,400 strategic nuclear delivery vehicles—a total that will be trimmed to 2,250 well before 1985 when the basic agreement ends. The overall limit of 2,250 is broken down three ways: A 1,320 sublimit on launchers of land-based intercontinental ballistic missiles—ICBMs—equipped with multiple independently

Present U.S.	SALT Limits	Present USSR
0	Freeze on "heavy" ICBMs	308
550	820 MIRVed ICBMs	600
1,046	1,200 MIRVed missiles plus bombers with cruise missiles	725
1,046	1,320 MIRVed missiles plus bombers with cruise missiles	795
2,060	2,250 strategic launchers (MIRVed) missiles plus bombers plus single-warhead missiles)	2,570



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targetable warheads—MIRVs—or rockets with more than one warhead, launchers of MIRVed submarine-launched ballistic missiles—SLBMs—and aircraft equipped with long-range jet-powered cruise missiles, a new nuclear warhead delivery vehicle the United States is testing.

The 1,320 weapons cap includes a sublimit of 1,200 on the number of MIRVed ballistic missile launchers—ICBMs and SLBMs. Of these 1,200 weapons, only 820 launchers can be MIRVed intercontinental ballistic missiles.

President Carter points out that "to reach these new, lower levels, the Soviets will have to reduce the overall number of their strategic delivery systems by ten percent; more than 250 Soviet missile launchers or bombers will have to be dismantled."

Without the agreement, the President says, the Soviets could build up to 3,000 strategic systems by 1985, but under SALT II, both nations will be limited to 2,250 such weapons. The United States could add 250 weapons to reach the new ceiling.

In addition to the basic pact, SALT

II includes a separate three-year protocol and a statement of principles that set the groundwork for further arms talks. Under the protocol, cruise missiles deployed for launching from land bases or ships are limited to a range of no more than 375 miles.

The range of aircraft-launched cruise missiles is not limited, nor are the testing and development of such weapons. The protocol flatly outlaws the deployment of air-launched ballistic missiles and mobile ICBMs—long-range missiles that can be shifted from launch site to launch site, a strategy aimed at confusing a country's defenses.

In the debate on the benefits of SALT II, protreaty forces argue that an unchecked arms race would increase the danger of nuclear war, impose staggering defense costs on American taxpayers, and probably result in nuclear weapons proliferation.

#### Future threats

President Carter says the SALT II agreement "will slow the growth of Soviet arms and limit the strategic competition, and by helping to define future threats that we might face... will make our defense planning more effective."

Treaty critics do not agree that an arms race would necessarily increase the threat of war or spur Soviet nuclear proliferation. They say the Russians are already spending as much as they can on military development.

The Coalition for Peace Through Strength, an umbrella for 166 anti-treaty groups, observes that "a policy based on superior U.S. strength kept the world much safer and more peaceful for 25 years than has the policy of detente and arms control during the last eight to ten years."

Dr. Kissinger adds: "The academic myth that arms races start wars finds very little support in history."

#### Impossible to negotiate

Treaty critics also dispute the way the administration adds up weapons totals to conclude that the two sides are—and under SALT II would continue to be—essentially equivalent.

Paul Nitze, a former deputy defense secretary and SALT negotiator under President Richard Nixon, explains that limiting the number and quality of missiles was much more important than limiting the number of launchers. The Soviets refused to agree to this. It was more important, Mr. Nitze argues, to limit the aggregate throw

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## Can the Soviets Be Trusted?

The outcome of the SALT II debate hinges on one question: Can the United States be sure that the Soviet Union will not cheat?

Foes of the agreement say the loss of electronic eavesdropping stations in Iran will handicap the United States in keeping tabs on Soviet missile technology. Critics also assert that Moscow has been less than faithful in abiding by the letter and spirit of SALT I.

To dispel mounting Senate doubts over Soviet adherence to the first strategic arms agreement, the State Department sent a report to the Foreign Relations Committee outlining technical compliance questions raised by both sides. The report, which shows that Moscow and Washington kept close watch on each other's nuclear arsenals, catalogued eight questions from the United States and five from the Kremlin.

U.S. queasiness focused on the construction of banned missile silos,

which, the Soviets argued, were really launch control facilities not outlawed by the accords; Moscow's apparent efforts to conceal strategic weapons, making U.S. surveillance more difficult; and the suspected conversion of old missile launchers for use with more advanced weapons.

The United States was also troubled by several alleged violations involving the testing of radar defenses, dismantling of antiballistic missile test launchers, and identification of ABM test ranges in the Kamchatka and Sary Shagan areas.

These and other issues were ironed out, to U.S. satisfaction for the most part, by the Standing Consultative Commission, a panel of U.S. and Soviet military, scientific, and intelligence experts. The commission, based in Geneva, Switzerland, considers "questions concerning compliance with the obligations assumed and related situations which may be considered ambiguous."

Among Soviet concerns was the construction of shelters covering missile silos. The shelters, which were built to protect workmen in winter, were later modified so as not to impede Soviet verification of U.S. compliance. Moscow also was concerned about U.S. progress in dismantling obsolete missile launchers and an ABM radar facility at an Air Force base in Montana—a facility shut down by SALT I.

Moscow has also been touchy about U.S. news articles that speculated about Soviet violations of the arms control pact. The Soviets complained to the consultative commission.

The State Department discussed with the Soviets the usefulness of maintaining privacy and the need to keep the public adequately informed.

Despite challenges by both sides, the SALT process of building mutual trust has continued. Whether this trust will spill over to SALT II remains to be seen.

weight of a force than the number and size of the launchers. This proved impossible to negotiate. Verifiable and negotiable controls over missile accuracy also proved unattainable, Mr. Nitze points out.

What the United States has gained, concludes Mr. Nitze, is several relatively unimportant adjustments in what otherwise would have been the Soviet program for deployments over the next six years, in part balanced by even less significant adjustments in our program for future deployments.

"It would not be the end of the world if the SALT II treaty were rejected outright," Mr. Nitze told a Washington Press Club breakfast.

### Vital interests

The biggest part of the treaty debate will cover verification, which simply means the ability of one side to check up on the other.

Such checks are vital, says the Coalition for Peace Through Strength, because the Russians cannot be trusted. "They have cheated or tried to cheat on SALT I [and] are today using their new military superiority to support attacks on U.S. vital interests in Iran, Africa, the Middle East, and Latin America," the coalition says.

Even Defense Secretary Harold Brown acknowledges that "Soviet spending has shown no response to U.S. restraint—when we build, they build; when we cut, they build."

Americans would feel less sanctimonious if they looked at the world through Russian eyes, some treaty proponents respond. J. William Fulbright, a former chairman of the Senate Foreign Relations Committee, says: "If the United States could send half a million men to Vietnam, cut the Russians out of the Middle East, and subvert an elected Marxist government in Chile, while still expecting the Russians to cooperate on arms control, the Russians may find it puzzling when we threaten to disrupt SALT II because of their involvements in Africa."

Sen. Charles Percy (R-Ill.), a member of the Foreign Relations Committee, mentions another potential problem: "A change in Kremlin leadership could render an analysis accurate one day and wrong the next."

The administration takes a middle position. "We don't rely on trust," says George Seignious II, director of the Arms Control and Disarmament Agency. "We don't take the Soviets at their word. We verify Soviet compliance with the provisions of the agreement

by using our diverse, powerful, and sophisticated intelligence capabilities."

But is that enough? Most U.S. intelligence comes from spy satellites, which cannot tell:

- The range of a cruise missile if it has not been tested at its maximum range.
- The number of warheads on a cruise missile or an ICBM, and whether they are nuclear or conventional explosives.
- The number of missiles warehoused in or near positions from which they might be fired.
- Whether a missile tested both at sea and on land is properly classified as an ICBM or an SLBM.
- The progress of research on weapons systems forbidden or limited by the treaty.
- The number of cruise missiles on ships, submarines, or aircraft.

In addition, the revolution in Iran has stripped the United States of vital listening posts whose electronic eyes and ears were trained on military installations in the Soviet Union.

Adm. Stansfield Turner, director of the Central Intelligence Agency, has speculated that it may take up to five years to replace this valuable resource. While some lawmakers and military



experts may quibble over whether these stations are needed, critics of the agreement want to know how the United States plans to monitor Soviet compliance.

Secretary Brown has declared that the shutdown of the U.S. stations in Iran will not affect verification of Soviet compliance. Without saying precisely how, he emphasizes that the United States will be able to "monitor many aspects of the development, testing, production, deployment, training, and operation of Soviet forces."

#### Observation stations

"Despite the closed nature of Soviet society," Secretary Brown adds, "we are confident that no significant violation of the treaty could take place without the United States detecting it."

"We are examining alternative means of collection, and the question is not if we will reinstitute this capability but how, where, and when we do it."

President Carter cautions that the loss of the Iranian observation stations must be kept in perspective. Noting that U.S. satellites survey the entire Soviet Union regularly, he says: "There is no question that any cheating that might affect our national security would be discovered in time for us to respond fully."

Verification boils down to a question of trust. "I'm for the SALT treaty," Sen. Glenn says, "but I'm also with the 80 percent of Americans who say that they don't trust the Soviets. We want to see verification. We want to know what they're doing."

#### Maintaining parity

While critics and supporters squabble over the treaty's numbers and verification problems, they agree on one costly point: SALT II will not reduce current defense spending.

"It will enable us to spend less than we would in the absence of an agreement," says Mr. Gelb of the Bureau of Politico-Military Affairs. "With a SALT agreement, expenditures on strategic nuclear forces are likely to rise from 20 to 40 percent in the coming years; without SALT, the same expenditures would rise 50 to 60 percent."

Mr. Gelb explains that SALT II will allow the United States to maintain nuclear parity with the Soviets rather than propel either side out in front in the arms race. He warns that the agreement "will not bring on the millennium in U.S.-Soviet relations." SALT may moderate and stabilize a

difficult relationship; it will not end competition between the two nations.

What the treaty will do, President Carter argues, is "contribute to a more peaceful world—and to our own national security." Rejection of the agreement, which took three administrations nearly seven years to hammer out, "would seriously undermine efforts to control proliferation of these weapons," the President explains.

Throughout the tortuous debate over SALT II that most observers foresee, lawmakers and the public will be forced to pass judgment on a string of Buck Rogers-type weapons. U.S. Poseidon and Polaris missiles will be compared to Soviet SSN-8 and SSN-18 missiles; U.S. Trident submarines will be measured against Soviet Yankee and Delta-class submarines; U.S. B-52 intercontinental bombers and Soviet Backfire bombers will be analyzed to see how they stack up, and U.S. Minuteman intercontinental ballistic missiles will be gauged against Soviet SS-17, SS-18, and SS-19 missiles.

#### Political realities

In the end, the Senate's verdict will be rendered by politicians—acting as statesmen, not engineers. The meaning of SALT is not to be found in computer printouts and engineering manuals, but rather in the political realities of U.S.-Soviet relations.

Mr. Paul Warnke, President Carter's SALT negotiator until he resigned last year, drew five conclusions about SALT II from his experiences in haggling with the Soviets.

- Russia and the United States can negotiate about strategic arms, and the resulting agreements will work.
- Strategic arms control agreements that are verifiable can be developed.
- Arms control agreements limit only what is specifically covered by the pact. The United States cannot rely on compliance with the spirit of an agreement; it must have the letter.
- Both nations share a common interest in survival that has enabled SALT to continue despite intermittent strains in the U.S.-Soviet relationship.
- The United States can pursue SALT without risk and as a major benefit to its national security.

SALT II "may be more important than any treaty we have ever considered in the Senate," says Minority Leader Howard Baker, Jr. (R-Tenn.). "In some ways, we are dealing with the greatest issue that this chamber has confronted—survival." □

## Why the Treaty Almost Misfired

**T**WO WEAPONS caused most of the delay in the slow progress from SALT I to SALT II: The Backfire bomber and the cruise missile.

The Backfire is a supersonic Soviet medium bomber of advanced design. The Russians claim that it lacks intercontinental range and therefore should not be counted as a strategic weapon; U.S. experts say that it doesn't, and it should. One version is believed capable of flying 6,000 miles, and it can be refueled in flight.

The cruise missile is a small, pilotless jet plane that can deliver a warhead—conventional or nuclear—with great accuracy while flying low enough to evade radar detection.

#### Far more accurate

Since the United States has a big lead in cruise missile technology, the Russians want them limited. The United States, on the other hand, wants a limitation on the number of powerful Soviet ICBMs.

Early U.S. missile guidance systems were far more accurate than their Russian counterparts. Since American ICBMs could come very close to their targets, they did not need massive explosive power and thus are relatively small. The Russians, on the other hand, needed big warheads to compensate for less accuracy. So they built very large missiles to carry them.

Then the United States discovered



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The MX missile now being developed would be able to thwart the growing Soviet capability to destroy the 1,000 Minuteman and 54 Titan ICBMs that are dispersed in underground silos throughout the nation.

how to use one ICBM to deliver more than one warhead. The first generation of these missiles was designed to release three warheads in the vicinity of the target. The unpowered warheads would fall where chance dictated. Such missiles are called multiple reentry vehicles, MRVs. They are still in place on older U.S. submarine-launched missiles.

A second generation of multiwarhead missiles followed rapidly. The warheads of the new generation can be dropped, one at a time, over preselected, nearby targets. They are called multiple independently targeted reentry vehicles, or MIRVs.

#### Warhead size

Several small warheads, properly dispersed, have more destructive force than one large warhead of the same total explosive power.

By MIRVing, the United States gained a partial counter to the Russian lead in warhead size. MIRVing also gave the United States a substantial lead in the number of warheads.

But Soviet technology appears to be catching up. The Russians are developing more accurate guidance systems and beginning to MIRV their missiles.

Because the Russian strategic mis-

siles were designed to carry more weight than U.S. missiles, they are also able to carry more MIRVs—perhaps as many as 40 on their largest ICBMs, according to Defense Secretary Harold Brown. By contrast, the mainstay of the U.S. ICBM force, the Minuteman III, is deployed with three MIRVs and has never been tested with more than seven.

The prospective Soviet combination of improved accuracy with greater MIRV capacity frightens U.S. defense analysts. Suppose, some of them say, that the Russians launched a first strike against our strategic weapons. By the mid-1980s, they may have the ability to destroy 90 percent or more of our land-based ICBMs and much of our heavy bomber fleet, while using less than half of their own land-based ICBM force.

Without land-based ICBMs, the U.S. would be unable to counter the remaining Russian ICBMs. Submarine-launched missiles are not accurate enough to destroy hardened missile silos, and bombers or cruise missiles take hours to reach their targets.

The United States could retaliate against civilian Soviet targets, but we would have more to lose from such an exchange than they would. Our popu-

lation is more concentrated and therefore more vulnerable to nuclear attack. Also, the Russians have an extensive civil defense program while we do not.

According to Eugene V. Rostow, Yale professor and former under secretary of state for political affairs in the Johnson administration:

"Secretary Brown's threat to blow up Soviet cities in retaliation for a first strike against our satellites or ICBMs is less than credible if the Soviets have enough weapons left in reserve to blow up our cities and then dominate the postwar world.

#### Soviet coercion

"A Soviet arsenal of that size could neutralize our nuclear forces and emasculate our second-strike capability. It would thereby make us vulnerable to Soviet political coercion," he adds.

Both the administration and the SALT critics are agreed on the need for a new missile designed to survive a Soviet first strike. Such a missile, called the MX, is being developed, although precisely how it would evade destruction has not been settled. One system under discussion is to move the missiles randomly from point to point in long trenches so the Russians could never be sure where they are.

The administration says the treaty is essential to the success of the MX, because without a limit on Russian MIRVs, the Soviet Union could simply add enough new warheads to cover any possible deployment of the MX.

#### MX deployment

Treaty critics respond that the treaty would sharply limit the number of MX missiles the United States could deploy, since the MX would have to be counted under the strategic weapons ceilings.

Many of the leading treaty critics—as well as influential senators—seem to consider the MX much more important than the treaty. For this reason, they are especially upset by the limits on new missiles in the protocol.

Although the MX could not be ready for deployment before the end of the three-year protocol, critics fear that the protocol will tend to become the base for future limits in a SALT III treaty.

Yet, says David Aaron, deputy assistant to President Carter for national security affairs, "without SALT II, we will be in a ridiculous situation, a shell game in which we are digging holes, and they are building bombs."



# Making Money From Used Boxes



Recycling corrugated boxes can help any business. One firm turned a \$300 a month disposal cost into an \$800 a month profit by selling boxes to wastepaper dealers.

**R**ECYCLING CORRUGATED boxes instead of paying a trash collector is becoming more profitable, says the American Paper Institute.

Business can sell used corrugated boxes to wastepaper dealers in urban areas for as much as \$43 a ton.

Used corrugated boxes are the largest single source of wastepaper for recycling, according to Rodney Edwards, vice president of the paperboard group of API.

"In fact, used corrugated paper comprises 35 to 40 percent of all wastepaper recycled in the United States. The amount of corrugated wastepaper handled by recycling mills is expected to increase by at least ten percent this year," he says.

"The demand for corrugated boxes is very high right now because the paper industry is very busy," Mr. Edwards explains.

There has also been a dramatic rise in the export of recycled boxes, up 61 percent during first quarter 1979.

In all, Mr. Edwards expects that total exports to Korea, Canada, Japan, and South American countries will reach 900,000 tons this year. The importers, he says, usually use the recycled cardboard to make paperboard for packaging.

The institute reports that for one

midwestern glass company, payouts definitely turned to profits. The company once paid \$300 a month to dispose of cardboard boxes. Now it earns \$800 a month by recycling.

## Study Aims at Cutting Cost of Solar Cells

Researchers and inventors are progressing slowly but steadily toward making solar energy an important power source.

At Battelle's laboratories in Columbus, Ohio, researchers have begun a year-long \$300,000 study for the Energy Department to try to cut the cost of making silicon solar cells.

Dr. Alfred E. Austin of Battelle says a major problem with solar cell technology has always been its high cost. Current solar cells—devices that are placed on rooftops or at power stations to convert sunlight directly into electricity—sell for about \$9 per peak watt of output.

Battelle researchers hope to develop a commercial method of producing silicon solar cells at costs as low as 30 cents per peak watt. One technique they will try is electrodeposition, which is traditionally used for plating one metal over another in coatings.

The federal government is encouraging solar innovation through the Office of Energy-Related Inventions at the National Bureau of Standards. The office evaluates inventions and recommends those with promise—about three of every 100—to the Energy Department for development and marketing support.

## Ultraviolet Light Kills Pollutants

Light has been enlisted in the fight to control pollution.

Atlantic Research Corp. of Alexandria, Va., has developed a system that uses ultraviolet light to help break down hard-to-degrade chemical pollutants into safe substances.

Called light activated reduction of chemicals, or LARC, the system bombards pollutant chemical molecules with light energy. The molecules then react with another element, such as hydrogen. This reaction destroys the original molecules, leaving only frag-



An Atlantic Research Corp. scientist works on an antipollution device that uses light to break down chemicals.



ments that are not environmentally hazardous.

The patent, entitled Dehalogenation of Halogenated Compounds, was issued to Dr. Judith Kitchens, chief of the pollution technology group for Atlantic Research.

The firm's manager of chemical technology, Dr. Ralph S. Valentine, says that LARC is particularly effective against polychlorinated biphenyls and some pesticides.

Preliminary evidence, he says, shows that the LARC system will also break down both organometallic and

explosive compounds. The process takes from 15 minutes to a couple of hours, depending on type and volume of materials.

## Automated Drive Designed for Bicycles

Robert Williams, a Utah bicycle shop owner and part-time inventor, has automated the 10-speed bicycle.

Mr. Williams's invention, a belt-driven transmission, would replace the chain, derailleur, and gears on a tradi-

tional 10-speed. The transmission adjusts speed automatically as the rider pedals up or downhill. "I could see that bicycle transmissions were inefficient and I knew I could do better," says Mr. Williams.

"A conventional derailleur on today's 10-speed bikes uses about 100 different parts. Mine uses only 25 different parts. None is sophisticated, so the transmission should be cheaper to manufacture and assemble."

A metal working model for a standard bicycle frame has been built under the sponsorship of the Utah Innovation Center at the University of Utah, Salt Lake City.

The center, supported by funds from the National Science Foundation, evaluated the potential of the invention and helped Mr. Williams refine the system. The foundation says the design could change the drive systems of drill presses, earth movers, and tractors.

Mr. Williams spent more than five years developing the belt-driven concept. Several domestic and foreign bicycle companies are interested in his design, he says.

Although he could not speculate on how much an automatic transmission bike would cost, he believes that most could be adapted very easily. Meanwhile, he has formed a corporation to market the invention, which he has patented.



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This belt-driven automatic transmission replaces bicycle gears. The inventor says the device could be used on drill presses.

NATION'S BUSINESS • JULY 1979



# Have the Wage-Price Guidelines Lost Control?

**T**HE SUMMER of 1979 did not start well for President Carter's anti-inflation fight.

Gasoline shortages across the nation and rapidly rising prices for fuel and food have infuriated the public. Opinion polls show the President has been losing ground in the popularity race. And double-digit inflation seems entrenched in the economy.

Casting about for solutions, the President has looked to the Council on Wage and Price Stability and its chairman, Alfred E. Kahn, for help in halting the inflation spiral. But that help is hampered by a nagging question that refuses to take no for an answer: Will the voluntary wage-price guidelines give way to mandatory controls?

The President says vigorously and often that he will not impose controls. Still, his voluntary program is under attack from labor, business, economists, and most recently, in court. And, if he plans to seek reelection, he must somehow reverse the nation's economic tailspin.

## Ruling appealed

One interim setback for the President was a federal court decision that stripped him of a major weapon in fighting inflation. The U.S. District Court of the District of Columbia ruled that the President could not withhold government business from firms that allow wage increases above the seven percent guideline.

However, the district court's ruling was reversed by the U.S. Court of Appeals, giving the President a temporary victory. The AFL-CIO, which brought the suit against the wage-price guidelines, will appeal to the Supreme Court. The labor organization

has been unhappy with the voluntary program since it began and has called repeatedly for mandatory control of both wages and prices.

The court decisions come at a time when several major unions—the United Rubber Workers, the United Auto Workers, the International Union of Electrical Workers, and the Association of Machinists—are negotiating or about to negotiate new contracts.

These unions will almost certainly ignore the seven percent ceiling on wages. Douglas A. Fraser, president of the UAW, whose contracts with the automobile companies expire on Sept. 14, says his union will not accept the seven percent wage standard.

Herbert Stein, a former member of the White House Council of Economic Advisers and now a professor at the University of Virginia, believes the administration has no power to deny government contracts to firms that violate the wage guideline. "It's absolutely terrible that President Carter assumed authority to use such a method," he says.

Pointing out that the guidelines are irrelevant to controlling inflation, he asserts: "They aren't doing any good, they haven't done any good, and they will not do any good."

Prof. Stein says that nothing will help more in the fight against inflation than cutting federal spending.

Paul W. McCracken, another former member of the White House Council of Economic Advisers, believes that federal budgetary restraint and tight control of the money supply will do more to curb inflation than the wage-price guidelines.

Whatever the Supreme Court decides, the administration must act



President Carter, looking ahead to 1980, must end the nation's economic travail if he hopes to win reelection. However, double-digit inflation seems entrenched.

quickly if it wants to change the voluntary program that begins its second year in October. White House planners seem to agree that both wage and price ceilings have to be raised. When the standards were established, the inflation rate was expected to hold at about seven percent. Inflation is now running at almost 14 percent on an annual basis.

Andrew F. Brimmer, a member of the board of the Chamber of Commerce of the United States and a former member of the Federal Reserve Board, says he had reservations about the guidelines when they were established.

"I felt at the time that the assumption that the inflation rate would reach only seven percent was too optimistic. I was predicting a rate of at least eight to eight and a half percent."

Treasury Secretary W. Michael Blumenthal has conceded that the guide-





Treasury Secretary Michael Blumenthal says business and labor will be consulted on how the revised and updated guidelines should work.

lines need "review and updating." Both business and labor will be consulted in working out revisions, he says. Business and labor will also be called on to make "mutual sacrifices" in carrying out the revisions, the secretary adds.

Some economists propose a new wage limit of up to 9.5 percent. Business is concerned about whether it will be allowed to raise prices enough to cover increased production or whether it will be asked to hold its profits to a predetermined level.

Despite the court challenge and incidents of noncompliance, administration leaders are not prepared to write off the voluntary guidelines. Both Mr. Kahn and Barry P. Bosworth, director of the wage-price council, claim that an adverse Supreme Court ruling would not mean that the guidelines had failed or should be abandoned.

However, National Chamber President Richard L. Leshner believes that "the administration, if it's smart, will let the guidelines fade into the sunset." He predicts that the inflation rate will drop from 13 percent to about 11 percent by summer's end. That will shift attention away from inflation and toward increasing joblessness and the start of a new recession, he says.

"I see the White House beginning to downplay the guidelines that we said a

long time ago would not work. The program is poorly constructed and unenforceable," he says.

Whether President Carter will ask Congress for relief from an adverse court decision is debatable. Some White House aides say an appeal to Congress would give AFL-CIO lobbyists a chance to push for mandatory controls.

### Congress against controls

However, the sentiment in Congress does not seem to favor mandatory controls.

Rep. Henry S. Reuss (D-Wis.), chairman of the House Banking, Finance, and Urban Affairs Committee, says: "Congress is not receptive to mandatory wage-price controls of any kind. The lower court has declared that denial of contracts amounts to mandatory controls, and that settles that, assuming the decision is upheld."

Sen. William Proxmire (D-Wis.), chairman of the Senate Banking, Housing, and Urban Affairs Committee, agrees. He explains: "There is strong opposition to any form of wage-price controls, and the contract sanctions are viewed as at least a half-step in that direction."

Despite congressional assurances, most business leaders responding to the quarterly surveys conducted by the National Chamber and the Gallup Organization say they still expect wage-price controls to become mandatory.

And poll after poll shows most Americans favoring strong mandatory controls.

Discussion of what President Carter will do recalls all too vividly the words of former President Richard M. Nixon that mandatory controls would be invoked only "over my dead body." Not long afterward, he signed an executive order invoking mandatory controls.

### Different today

The situation is different today, however. President Nixon had congressional authority to act. President Carter would have to seek that authority. President Nixon used the controls in phases from 1971 through April, 1972, when Congress allowed the authority to expire after becoming disenchanted with controls.

While the President adamantly insists he will not resort to mandatory controls, Dr. Bosworth, the wage and price stabilizer, said in an interview:

"Now, everybody wants bigger wage increases because of big increases in food and fuel prices. If that gets built

into the industrial structure, we would have a problem. In that type of inflation, I think that mandatory controls, while extreme, are a potential option."

His words were barely public when the White House was besieged with demands to know whether the President had had a change of heart. The administration denied that Mr. Carter's position had changed.

Dr. Bosworth's office, trying to tone down the implications of his statement, said the director was merely talking in "an academic setting, dealing with an abstract subject."

Abstract or not, inflation is very real in today's economy. According to Jack Carlson, chief economist for the National Chamber, the government's own policies contribute more to inflation than anything else.

In the past two years, he says, three governmental actions alone—the increases in the minimum wage and social security taxes and new air quality standards—have added three percent to inflation this year.

Dr. Leshner points out that in 1980 some political office-seekers may seize on a two or three percent drop in the inflation rate to boast that the worst is over. They can then focus attention on unemployment and turn their backs on inflation.

"And that will merely aggravate the long-term problems of inflation," he adds.

President Carter's toughest battles against inflation are perhaps ahead. He has to try to convince some of the union giants not to destroy what remains of his voluntary guidelines. That will not be easy.

As Mr. Fraser remarked: "For all practical purposes, the court decision served as the final nail in the [guidelines] coffin." □

## Prophetic Forecast

Last October, shortly after President Carter unveiled his wage-price guidelines program, Richard L. Leshner, president of the Chamber of Commerce of the United States, said:

"Many will rebel against the guidelines. Some will even question the legality of the procurement sanctions. But most will agree that a focus on wages and prices concentrates on the symptoms and not the disease."



# All You Ever Wanted to Ask About the Wage-Price Guidelines

An interview with Alfred E. Kahn,  
who explains in simple terms  
how the standards work

**A**N incomprehensible mess. That's the likely reaction of a typical business person trying to understand the voluntary wage and price guidelines of the Carter administration.

Even bureaucrats are confused by the blizzard of conflicting figures, difficult terms, and ever-changing rules.

In an attempt to reduce those rules to plain English, NATION'S BUSINESS went to Alfred E. Kahn, President Carter's adviser on inflation and chairman of the Council on Wage and Price Stability, and assumed the role of a business person asking about the program. Mr. Kahn had some helpful answers.

**Mr. Kahn, the President is asking me to hold down prices. How does he expect me to do that when my costs are jumping sky high?**

The President is not trying to impose a rigid ceiling on your prices. For the year that started last October and ends this September, he is asking every business to hold down any price increases to one-half percent below the rate of increase during the 24 months from the beginning of 1976 to the end of 1977. That's the base period for most firms.

**If I boosted prices ten percent in the 1976-77 period, am I expected to limit increases this year to 9.5 percent?**

Right. And, incidentally, no firm is supposed to exceed 9.5 percent this year. That's the upper limit, regardless of your price increases in 1976-77.

**Suppose I happened to raise prices in that 1976-77 period by only three percent because I ran into heavy competition. Am I limited to a 2.5 percent increase this year?**

Yes, under our price deceleration standard.

**But what if my costs increase by 20 percent? I couldn't stay in business with only a 2.5 percent increase.**

If your costs go up so much that it isn't possible for you to meet the deceleration standard, then the President asks you to adhere to a profit margin limit.

**So you've really got two ways of figuring how to stay within the guideline: A price increase standard and a profit margin standard?**

Right. If you're squeezed too hard by the first, you try the second.

**How does the profit margin rule work?**

It says, in effect, if your costs are going up rapidly, you may pass them on through price increases even if that puts you over your price increase limit. But if you pass on costs, you are not supposed to increase the amount of your profit by more than 0.5 percent, except as the volume of your sales goes up.

**Do you have an example of what you mean?**

Let's assume you run a laundromat

business. In the past year, your profit before tax was \$40,000, and your costs were \$250,000. Let's assume that this year your costs have doubled to \$500,000 on the same volume of business. The President asks that you not raise your prices more than is necessary to cover those increased costs and bring you the same profit as last year—\$40,000, plus the 6.5 percent inflation factor, or \$42,600. If your volume is up ten percent, you would still be in compliance if your profit went up to \$46,860. Our goal is to let you keep your profit at about the same level, in real terms, as it was before the guidelines became effective in October, 1978.

**What if inflation hits a double-digit rate this year—12 or 13 percent instead of last year's nine percent?**

Both the pay and price standards require all of us to tighten our belts a little. Not much, but enough to hold inflation in check. We are never going to succeed if everyone insists on increasing his or her wage or profit to cover the past rate of inflation. That's really what the standards are all about. They are an effort to slow down the rate of inflation and eventually even roll it back some, for the good of all.

**Going back to a firm caught by rising costs—if all businesses are covered by these standards, how could my costs go up as much as 15 or 20 percent this year? Wouldn't that prove**



**my suppliers are ignoring the guidelines?**

Not necessarily. First, we are dealing in averages. When we say the average of a firm's prices should not rise more than a certain percent this year, we don't mean that in this vast U.S. economy some aren't going to go up ten, or 15, or even 20 percent.

Second, it makes no economic sense to try to control some prices. Beef prices, for example, have been rising substantially. Oil and gasoline prices obviously are shooting up. With higher fuel prices, all kinds of other costs—electricity rates, for example—are kicked up.

Other prices have gone up much less than the high-fliers. Prices of some goods and services have gone up as little as one or two or three percent a year. Costs of some businesses are not going to rise as fast as the general price level. We want these businesses to stick to price deceleration, and there is no reason they cannot.

To those with uncontrollable cost increases, whether because of higher social security taxes, higher minimum wages, or higher raw material costs, what we're saying is: Don't try to take more off the top. Pass through the

amount of your higher costs in your own prices, but maintain just the profit amount that keeps you whole.

**But why do beef ranchers and oil dealers, for instance, get to raise their prices so much, when I'm asked to hold increases below last year's?**

The guidelines do not cover prices that are not within control of the sellers. These prices are determined by an auction market such as in the sale of cattle or by forces outside the United States as in the case of oil. To try to control those prices would be foolish: It would lead to shortages, encourage excessive consumption, and discourage production.

**Will you take my word for it that my prices are going up by, say, nine percent, or am I going to be checked? Will you demand records to prove I am complying with the standards?**

This is a voluntary program. We have asked the largest companies to give us information that shows they are in compliance. And we have asked some middle-sized companies in areas and industries showing especially large price increases to explain to us why their prices are rising so fast.

But for most businesses, the answer is no, we're not going to demand that you prove anything. We are counting on you as American citizens to show the same restraint that others are showing.

**Who, actually, is showing restraint?**

Hundreds of thousands of workers about whom we have specific information and millions of others—some in unions and some not—who, we are confident, have taken less in pay increases than they believed they were due.

**What about businesses? Do you have a list of firms or industries that you know are complying with the guidelines?**

We do not keep such a list, because we have no means of checking its accuracy as far as the millions of businesses are concerned. Any list we tried to prepare would inevitably be incomplete.

We know that thousands of companies are complying, either because they have pledged to do so or because we've checked them out. For example, more than 450 of the nation's 500 largest companies have specifically pledged compliance with the standards. Our price monitoring efforts

have found hundreds of others that are in compliance, and every week we find more.

**Suppose I buy a new business, say, a hardware store. In that store I sell a lot of things, and I raise prices on hammers one day and pitchforks the next. Do I have to figure the price increase I am allowed on each item or can I just take the average of all prices in the store?**

The latter. The price standard does not apply to individual product prices. We are trying to get you to control the average price increase for all your products. The federal government does not want to tell you whether pitchfork prices are too high or too low. We want you to make sure the average increase on your own mix of products is one-half percent lower than the percentage increase in the base period. You can accomplish that any way you see fit.

**Can I raise prices any time I want? If my costs increase, I can't wait until the end of the year?**

We're asking you not to post all your increases at once. You should space out any markups over the course of the year, unless your pricing has already followed some clearly defined nonuniform pattern in the past. We're trying to avoid everybody taking all the permissible increase at the beginning of the year. We're asking you to take no more than one fourth of your yearly price increase in any calendar quarter. If your permissible increase is eight percent between October, 1978, and September, 1979, we want you to limit increases by the first of July to no more than six percent over last October's level.

**Are you trying to limit profits to last year's amount, plus the 6.5 percent inflation factor?**

Not at all. The purpose of this program is to limit inflationary price increases, not to control the total amount of anyone's profits. We believe that profits are necessary for businesses to grow and increase productivity. What we don't want is firms increasing their profits on the same volume of sales by raising prices more than is necessary to cover increasing costs plus the inflation factor.

**So if I increase my sales, I can earn a larger profit than last year and still be in compliance?**

Yes, whether you are complying by  
NATION'S BUSINESS • JULY 1979

PHOTO: BRUCE HOERTEL



"The purpose of this program is to limit inflationary price increases, not to control the total amount of anyone's profits."



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meeting the price deceleration standard or the profit margin limit. If your average price increase for all your products is reduced a half-percent from the 1976-77 rate, your profits can increase as much as you can make them.

You may also earn more by increasing sales if you are using our profit-margin limit. What we're asking is that you limit profits to the same dollar amount per unit of sales plus 6.5 percent. If you expand your volume, you can also expand your profit. For example, if that laundromat business doubled its unit volume, it could also double its profit and earn \$85,200.

Suppose the bottom falls out of my business this year, and I cut prices and profits or even take a loss to stay in the game. Can I carry over the low-

**er profit or loss and be entitled to price and profit increases that might exceed the standard next year?**

We are now formulating the second-year standards, so I cannot answer that question precisely. It is likely that the second-year standard will not allow a company to recoup completely from an exceptionally poor first year. However, we are attempting to ensure that companies that fell well below their standards during the first year, due to poor market conditions or their efforts to restrain price increases, are not penalized unfairly by the second-year standard.

**So if this voluntary program continues into 1980, this year would be one of the three years used as the base period?**

Unfortunately, we can't honestly

say the program will be so successful this year that we won't need one next year. We have not decided exactly what the program will look like. We're trying to improve it and make it a little more manageable. But it does not seem to me sensible to incorporate 1979 into the base. That would penalize the companies that have shown the most restraint.

**How should wages and other employee benefits comply with the pay standard?**

First, remember that employees earning less than \$4 an hour are exempt. For people earning more, the pay standard limits wage or salary increases to an average of seven percent a year. It does not apply to each person individually, but to groups. Management people would constitute one group, unionized employees a second, nonunionized a third. For each of these groups, the average pay rate including fringe benefit costs should not go up more than seven percent over the course of the year.

Just as we do not try to tell you what price to charge on every product or service you sell, we also don't want to tell you how much money you may pay each employee. All the pay standard says is that within a particular class of employees the average rate of increase has to be seven percent or less. It's okay if a good worker receives more than seven percent as long as the average is seven percent or less.

**Is the cost of fringe benefits part of the seven percent?**

Mandatory fringe benefits—social security, workers' compensation, and unemployment insurance—are not counted as part of a worker's pay. Private fringe benefits—the cost of paid vacation time, sick leave, health insurance, pension contributions—do fall within the seven percent limit. There are some exceptions concerning increased costs of existing health and pension benefits, which we would be glad to explain if people write to us.

**Say I want to start a pension plan for my employees. Does the cost of that have to come under the seven percent limit?**

Yes. New benefit costs must be included.

**What if I just increase the amount of an existing benefit, like raising the limit on hospital care from \$50 to \$100 a day?**





It is appropriate to pause at this glorious time each year. To salute our flag. To celebrate that we are Americans. And to honor a political and economic system that is recognized worldwide as a truly extraordinary achievement in the progress of mankind.

We Americans have been striving together to retain the essence of that system, while seeking always to refine it, to meet the changing needs and aspirations of our people, and to achieve an acceptable balance between the basic rights of the individual and the welfare of society as a whole.

This effort has never been easy. And it is especially difficult today, considering the serious challenges that face us. Energy. The environment. Inflation. Inadequate capital

formation. Decay of our cities. Weakening of the family structure. The continuing growth of government. How we meet these challenges will determine the character of American life in the years ahead.

There are many different ideas being expressed, different solutions being proposed. This is as it should be. People are of different persuasions, and Americans are never totally satis-

fied with things as they are.

From all our differences we have traditionally evolved a national consensus. We have created sound policies to guide us as we move forward into the future.

It is in the spirit of consensus that we of the Chamber of Commerce of the United States honor America in 1979. We pledge to continue our efforts in behalf of the kind of tomorrow we all want for our nation. A future that reflects the basic values that are the foundation of our way of life. Freedom of the individual. And liberty and justice for all.

Richard L. Leshet, President  
Chamber of Commerce of the  
United States

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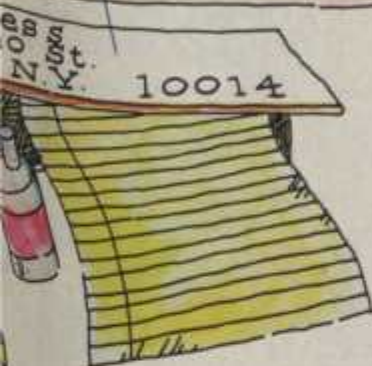




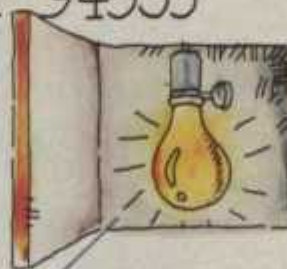
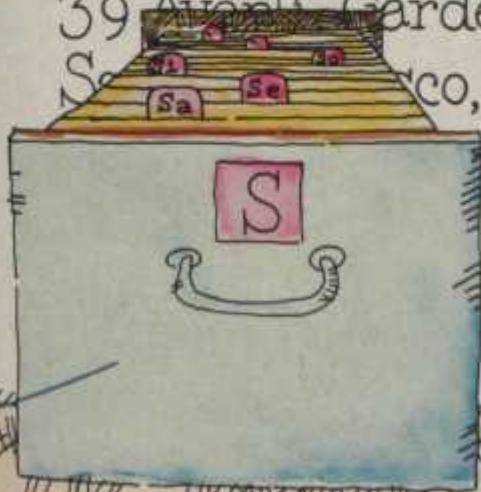
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# It's reassuring to know the Mercedes-Benz 240D can take you farther on a tank of fuel than any other car sold in America

**O**n the one hand, it is pure Mercedes-Benz – with all the quality and integrity the name implies. On the other, the 240 Diesel costs \$5,000 less than any other Mercedes-Benz – and can take you 633 miles on a single fill-up. Read how the 240D can gratify both your pocket-book and your love of fine cars.

Relentless efficiency is the Mercedes-Benz 240D's mission in life. From its stouthearted Diesel engine to its four-speed manual transmission to its wind-cheating, aerodynamically "clean" body shape, it is an enemy of waste in all its forms.

But what sets the 240D apart is the fact that these efficiencies are rendered by a solid, 1½-ton automobile that doesn't look or feel like any "economy" car you have ever known.

## No corners cut

Certain costlier Mercedes-Benz sedans sit on a 110-inch wheelbase and share a body shell notable for the spaciousness of its interior and its trunk. That same wheelbase, that same body form the basis of the 240D.

It is full-blooded Mercedes-Benz in its technical advances too. The fully independent suspension, four-wheel disc brakes and superb power steering system fitted to those costlier sedans are also fitted to the 240D. As are power brakes, a central vacuum locking system, even a quartz-crystal chronometer. And every painstaking step of workmanship and finish that those other models undergo, the 240D undergoes.

## What's in a bread box?

Consider the mechanical heart of the 240D. It is a four-cylinder Diesel engine whose 146.4 cubic inches of displacement would barely fill the average bread box. But what feats the engineers make it perform:

- It is strong enough to propel this substantial automobile along hour after hour at American highway

speeds, yet so finely balanced that you cruise along at 55 mph without a hint of Diesel vibration or "knock."

- It can be driven for thousands upon thousands of miles without needing a conventional tune-up. Most engine parts that would need to be tuned up aren't there: no carburetor, no spark plugs, no distributor, no points.

- It runs on Diesel fuel, still America's cheapest automobile energy source. And despite its 1½ tons, it delivers an estimated *thirty miles per gallon*. This is the EPA estimate for a 240D equipped with a 4-speed manual transmission. *Remember: Compare this estimate to the 'estimated mpg' of other cars.* You may get different mileage, depending on how fast you drive, weather conditions, and trip length.

This mileage and a 21.1-gallon tank create a driving range so vast that it is possible to go from New York to Washington, sightsee, then turn around and go back to New York again – all on a single fill-up.

## Efficiency is standard

The 240D's four-speed manual shift and its lack of power accessories both reduce initial cost and increase running efficiency. But if this seems a touch too austere – if you choose the comforts of air conditioning and electric windows and automatic transmission over the economies created by their absence – you can order them as extra-cost options. You will still be driving a frugal-hearted car.

## 120 safety features

In your 240D, the doors are a safety feature. The steering column and wheel are safety features. The glove-box door lock is a safety feature. Even the profile of the taillight lenses is a safety feature – designed to help swirl slush or mud away in the airstream as the car moves along,

keeping your brake lights visible to following traffic.

## Satisfying sensations

The 240D is a richly satisfying car to drive because it is intelligently engineered down to the fine points.

One fine point is zero-offset steering geometry. Simply put, it helps the car maintain a straight line even as you thunder over potholes. Another is the shock absorber fitted into the steering mechanism, to blot up thumps that might otherwise jar your hands on the wheel.

## Unrivaled resale value

There are some things that the 240D *cannot* do. For instance, it cannot depreciate drastically in value overnight.

The happy fact is that, over the past five years, Mercedes-Benz 240D Sedans have been shown to retain over 80 percent of their original value.

## A Diesel down to its soul

Finally, the 240D comes from the company that has spent more years building Diesel automobiles and has built more of them (two million and climbing) than any other company in the world.

Mercedes-Benz sees significant differences between a Diesel car and a car with a Diesel engine. The 240D is designed as a Diesel to the core, its every major component matched to the unique demands of Diesel operation.

In sum, the 240D is for people who are seriously concerned with driving efficiency. And Mercedes-Benz has been seriously concerned with building Diesel cars, not for four years or so but four decades or so.



*The 240D can take you 633 miles on a single fill-up.*



The added cost must be included as part of the pay increase that should not exceed seven percent in any one year.

**Say my employees contribute to a hospitalization and pension plan. If we expand the benefits, increasing both my contribution and theirs, do I include what I withhold from their paychecks as part of the allowable seven percent pay increase?**

No, you count only what the business pays.

**What about overtime pay?**

In general, overtime pay is excluded, except when you change the rate of overtime pay. Otherwise, any increase in total hourly wage and salary costs plus benefits should be kept within the seven percent limit. But the money you pay in overtime does not go into this computation.

**What if I promised my people that if we had a really good year in 1979, I would give them a big raise? Do I have to limit that to seven percent?**

If you made that promise before the anti-inflation program was announced last October, it is considered a commitment to your employees. That raise wouldn't come under the seven percent limit for this one year.

If, however, you made this promise after last October, the increase would have to count toward the seven percent limit.

**Is a Christmas bonus counted as pay?**

Yes.

**Where can I get more information about the program?**

We will send you, free, a 27-page booklet called *Pay and Price Standards: A Guide for Small Business*. Send your request to the publications office of the Council on Wage and Price Stability, 600 17th Street, NW, Washington, D.C. 20506. You can also get copies of a more detailed explanation of the pay and price standards. Ask for the council's implementation guide.

**Can I get individual help by telephone?**

For questions about the pay standard, call 202-456-7103, Mondays through Fridays. For questions about the price standard, call 202-456-7107. Those are not toll-free hotlines. You'll have to pay for any call.

**How can one set of guidelines cover all the businesses in the country?**

They don't. We have special standards for some industries and businesses including wholesalers, retailers, food processors, banks, public utilities, insurance companies, financial institutions, and professional fees. If you think yours is a special case, ask about

PHOTO: BRUCE HOERTEL



"Unfortunately, we can't honestly say the program will be so successful this year we won't need one next year."

our exceptions for special circumstances.

**Just to nail down the point: Nobody's going to snoop on me to see if I'm complying?**

No, nobody from the government, that is. We have encouraged consumer organizations and, at their request, labor unions to watch the behavior of prices in their localities and report to us any prices they think are increasing rapidly.

This is a voluntary program, and it depends very heavily for its success on all the people of this country exercising restraint.

Since we were determined not to set up a massive federal bureaucracy and enforcement effort—our total staff is 233—monitoring and price reporting at the local level are essential.

**What about the Teamsters' recent settlement? Didn't that bend or outright exceed your standards?**

It did not exceed the standards. However, we did issue two general interpretations of the standards—one in December, one in March. These, when applied to the Teamsters' situation, made the contract acceptable, even though it provided for increased costs to the industry of 8.3 percent rather than seven percent, assuming a six percent annual rate of inflation over the next three years.

Our interpretations, which cover computing cost-of-living adjustments carried over from old contracts and evaluating the increased costs of maintaining unchanged fringe benefits, were strongly urged by both business and labor. The interpretations were not devised for the benefit of the Teamsters. They apply to all union contracts.

Obviously, the Teamsters' settlement is inflationary. But so is a seven percent settlement—anything above zero is inflationary, for that matter. The important point is that the Teamsters' settlement was lower than it would have been if there weren't any wage standards.

Three years ago, when inflation was less than it is today, the Teamsters settled for an increase of 34.3 percent. This year, they settled for 26.9 percent. It would have been better if they had settled for even less. But clearly, the standards resulted in the Teamsters showing restraint. By this test, the new contract does represent a genuine achievement.

A final point: On the basis of increases in wages and fringe benefits, the Teamsters' settlement amounted to less than seven percent. When you add in cost-of-living adjustments, the cost of the settlement obviously goes up. If you assume that inflation will continue at an annual rate of six percent over the next three years, the total settlement is 8.3 percent. If you use a higher estimate of the inflation rate, you can jack up the cost of this settlement as much as you want, but it will be sheer speculation because no one really knows what the rate of inflation in 1981 or 1982 will be.

And yet, as soon as the settlement was announced, the media reported that the new contract amounted to an increase of ten percent per year. But this figure assumes that inflation will be running at nine or ten percent three years from now. I, for one, don't believe that.



To order reprints of this article, see page 68.



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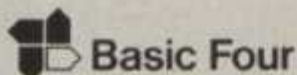
But the System 200 really earns its keep (less than I'd pay a clerk) by doing every bit of our accounting. Processing transactions as they happen, so all records are current. And it came with all the programs we needed, ready to go.

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# For J.B. Fuqua, Business Is the Only Recreation

By Vernon Louviere

**W**HEN J.B. FUQUA was growing up on a small tobacco farm in central Virginia, the Duke University library kept him supplied by mail with a steady flow of books on banking and financial subjects.

Early in the game, a single message came through—the best way to make money was by using other people's money.

For more than 40 years, J.B. Fuqua—the initials stand for John Brooks, but no one calls him that—has lived by that principle. It has helped him amass a personal fortune of more than \$50 million and build a diversified company approaching \$2 billion in annual sales.

Mr. Fuqua is chairman of the board of Fuqua Industries, Inc., of Atlanta, Ga., a multimarket manufacturing, distribution, and service company. In 1978, with the acquisition of National Industries, Inc., Fuqua's sales rose from \$632 million to \$1.6 billion. Net income soared from \$16 million to \$30 million.

## Many products and services

Fuqua products and services range from Snapper lawn mowers to American Camper equipment and from a chain of almost 300 southern and southwestern theaters to Chapparral Exercycle. The company owns Colorcraft photo processors, the Interstate Motor Freight System, a luxury housing development in Fort Lauderdale, Fla., Yozert frozen yogurt, and Willow Hosiery, which has the exclusive license for National Football League, National Hockey League, and American Soccer League socks.

A self-made man who never got past high school, J.B. Fuqua leans heavily on well-educated young men and women to help run his company. With rare exceptions, he will hire only business school graduates or lawyers for man-

agement jobs at corporate headquarters. The average age of his corporate operating officers is 42.

"In order to get some fun out of business, you've got to look at it as a game," he says. "And in order to have a game, you've got to have a game plan. My game plan was to build a major public company by acquiring existing profitable businesses that had been developed by other people and had a proven management."

"My theory was that buying profits would be faster and less risky than growing our own profits."

## Planning a second career

Now that he is 61, Mr. Fuqua is laying the groundwork to step down as operating head of the company. But he is not planning to retire from an active business life. He has bought a small investment firm that he plans to expand when he leaves Fuqua Industries.

Ironically, Mr. Fuqua, whose firm is deeply involved in recreational products and services—everything from manufacturing bowling balls and pleasure boat trailers to sponsoring the Jackie Gleason Inverrary Classic Golf Tournament—has no leisure time himself.

He acknowledges this as a major shortcoming in his life. He used to hunt, but gave that up. He used to fly his own plane, but abandoned that when Fuqua Industries bought a fleet of jets. No golf or tennis or bowling.

Actually, J.B. Fuqua gets tremendous pleasure out of reading financial reports or anything that has to do with business. He hasn't read a piece of fiction in 25 years; the closest thing to popular reading for him is biographies of successful people, particularly those who have made it big in business.

Mr. Fuqua and his wife Dorothy, whom he met on a blind date when she was a secretary in Augusta, Ga., live in



The Fuqua residence is a showplace in North Atlanta. Mr. Fuqua looks out on his oriental gardens, which won the top award in a national contest.

quiet elegance on a four-acre estate that is two blocks from the governor's mansion.

Because of Mrs. Fuqua's fondness for things oriental, Mr. Fuqua had their home "orientalized" when they bought it in 1967. It now has a pagoda-like appearance and looks out on one of the most beautiful gardens in Atlanta's fashionable Buckhead section. The ori-





J. B. Fuqua's son Rex, 28, is president of Fuqua Media, which owns, among other things, station WJBF-TV in Augusta, Ga. It was acquired in 1953 when Augusta was considered too small to support a TV station.

ental gardens, designed by landscape architect James Gibbs, won first prize in a national judging.

The Fuquas are not gregarious. A pleasant evening for them is dining out with intimate friends at one of Atlanta's better restaurants, which they do once or twice a week. Their 29-year-old son, Rex, is president of one of Mr. Fuqua's personal properties, Fuqua Media, which owns, among other things, station WJBF-TV in Augusta.

#### No taste for tobacco

J. B. Fuqua had no taste for tobacco farming when he was growing up and he knew college was out of the question. So he made plans early to leave the farm when he finished high school. A radio commercial prompted him to send 25 cents for a booklet on how to become a ham radio operator. He got his radio operator's license and, at 17, just out of school, he joined the Merchant Marine as a radio officer.

It was during this period that he learned of Duke University's books-by-mail service. He read everything he got his hands on about running a radio station and also developed an interest in banking and other financial matters.

In the county seat where he grew up,

Mr. Fuqua saw that the people who had the biggest houses were the bankers, and he figured they must know something he should learn.

After leaving the Merchant Marine he settled in Augusta, where he became the youngest chief engineer of a radio station in the country. He was 19 years old at the time.

This launched his business career. He found several investors and built his own radio station. He also started building and selling homes. Gradually, he borrowed money from local banks in increasing amounts. His credit reputation blossomed. When he was 27, he bought a soft drink bottling company—using the company's own money—and turned that into a \$100,000 profit.

J. B. Fuqua's business ventures spread—a television station, a bakery chain, more real estate.

#### A venture into politics

At this point in his career, he went into politics. He served three terms in the Georgia House of Representatives and one in the Georgia Senate. Jimmy Carter might not be President today, except for J. B. Fuqua.

When Mr. Fuqua was chairman of the Georgia Democratic Committee, a

peanut farmer from Plains ran for the state senate, but was eased out in the primary. Charges of election fraud followed. As party chairman, Mr. Fuqua had to arbitrate the disputed election. He decided it in Mr. Carter's favor.

Fuqua Industries was born in 1965 when Mr. Fuqua decided to be more than merely sole proprietor of several companies. The best way to do that, he reasoned, was to go public, preferably by merging his companies with one that was already publicly held.

#### A starting point

He found what he was looking for in the Natco Corp., a brick and tile manufacturing firm that had been in business for 75 years, but was not doing well. Mr. Fuqua bought a 25 percent interest for \$3 million in cash. Even though Natco was losing money at the time, the company was an excellent starting point. It had good assets, about \$3 million in cash, no debt or preferred stock, and its book value was twice the market value. Moreover, it was already listed on the New York Stock Exchange.

"We knew nothing about the structural clay products business," Mr. Fuqua says, "but I don't think you have to know anything about a particular kind of business to be able to make sound business decisions."

Fuqua Industries took off from the start. It moved into agricultural equipment, photo developing, lawn mowers, earth moving machinery, and a host of other products and services.

#### A major setback

A few years ago, J. B. Fuqua had a major setback, but he claims no disappointment. He sought to acquire Avis, whose stock was then in federal trusteeship after the government ordered International Telephone and Telegraph to dispose of the car rental firm. After a court fight, Fuqua Industries lost out to Norton Simon, Inc.

What Mr. Fuqua was looking at more than anything else was Avis's international image—it operates in 120 countries. Also, Avis had already spent \$125 million to advertise its name, which had become a household word.

J. B. Fuqua didn't get to push his company into the billion-dollar class, but a short time later, he acquired for \$60 million National Industries, a conglomerate with \$1 billion in sales. Some Wall Streeters shook their heads. He had paid a 55 percent premium over the \$6 common stock price for



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**Cessna**



a company that was earning less than one percent on its sales. And the stock was selling for less than half the book value.

But the Atlanta entrepreneur recalls with amusement: "We bought them with their own cash."

J. B. Fuqua is not the stereotyped business executive. He never writes memos and will have nothing to do with committees. You won't find an organization chart on the premises. His management style is somewhat informal. He rarely writes letters, preferring the telephone instead. "No typewriter ever wrote as warm or clear a communication as the human voice," he says.

In an interview in his office on the 38th floor of the First National Bank Tower in downtown Atlanta, Mr. Fuqua tells how he rose from farm boy to the top levels of American business.

**You actually got your start in the business world by becoming an amateur radio operator. How did that come about?**

When I was a youngster growing up on a tobacco farm in rural Virginia, we bought a radio. It was battery operated since we didn't have electricity. One day I tuned in to a Richmond station, and a Morse code class was being taught by the chief engineer. It was interesting, so I kept listening. At the end of each program there was an announcement that for 25 cents you could get a copy of a booklet called

*How to Become an Amateur Radio Operator*. I sent for it. I was about 14 then.

**And you became a ham radio operator?**

Yes, I built a small set and got an operator's license. When I graduated from high school, I decided to join the Merchant Marine as a radio operator.

**You didn't want to become a farmer?**

No. My greatest ambition was to get away from the labor of being a farmer.

**You stayed in the Merchant Marine about two years. What happened next?**

I got a job as a part-time summer relief engineer at a radio station in Charleston, S. C., and another one in Columbia, S. C., both owned by the same people. I impressed them and soon had a permanent job.

Within six months they made me chief engineer of one of the stations. I was only 19 years old. I was told I was the youngest chief engineer in the country at the time.

**Were you required to take any additional training or courses?**

No. But I continued to get books through the mail from Duke University as I had since high school.

**What kinds of books?**

Anything to do with financial matters. I started getting these books from

Duke when I was about 14. In the county seat where we lived, all the people with the biggest houses and the greatest affluence were the bankers. I made up my mind that was the way to go. I was determined to learn as much about banking and finance as I could. Duke either selected the books for me or gave me a list from which I could select my own.

**Did all this reading pay off?**

Oh, yes. One of the first things I learned was that if you were going to make it financially, you had to learn how to use other people's money. So I started to buy land and borrow money from the bank to build houses. I would build a house, sell it, and turn right around and start all over again.

**How old were you?**

In my early 20s.

**And were you still chief engineer of the radio station?**

I got ahead of my story. It wasn't long after I became chief engineer that I decided I knew as much as the station manager. This was gross overconfidence, of course, but I made up my mind I would either manage a station or own one. I picked out several cities that I felt could support a second station and settled on Augusta.

**How did you swing that financially?**

I walked into the Augusta Chamber of Commerce one day and asked for some names of people who might want to invest in this kind of venture. The chamber was very helpful and gave me the names. I was able to raise the money. It wasn't that much—\$10,000 or \$12,000. Under the arrangement, I retained ten percent of the ownership and managed the station.

**After acquiring part interest in a radio station and building and selling houses, what was your next venture?**

As I explained, I was learning how to use credit, to use other people's money. By now my credit reputation with the local banks was good. I came upon the opportunity to buy a Royal Crown Cola bottling plant by using its own money.

**How did you do that?**

Under the tax laws, if you have a privately held company and accumulate cash in excess of your needs and don't pay it out as dividends, the government will assess a penalty. The elderly gentleman who owned the plant had done just that. He had accumulated

PHOTO: JAY LEVITON



An airplane model on his desk is one of the symbols of the J. B. Fuqua way of doing business. Mr. Fuqua, a former pilot, travels extensively in the company's six jets to visit Fuqua operations here and abroad.



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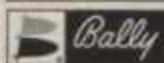
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ed a lot of money. If he had taken it out, the tax rate would have been prohibitive. The easiest way for him to keep his money was for somebody to buy the corporation and pay him off. That way he could claim a capital gain and pay far less in taxes. So that's what I did. I bought him out with his own money.

### Was that a good investment?

Yes. I sold it about three years later and made about \$100,000. I was 29 at the time.

### And you reinvested that?

Oh, yes. I bought my own radio station in Augusta, one that had been built after we had opened the second station there. A couple of years later, I applied for a television license. Most people thought it was a publicity stunt since no city that small could support a TV station. Well, I got the license and put the station on the air in 1953. I still own it.

### Somewhere in here you got involved with the bakery business.

It was a publicly owned wholesale bakery company headquartered in Augusta. I bought it with no cash. I used \$964,000 of debentures issued by the TV station. Incidentally, those debentures won't come due until 1983.

### What came next?

In trying to settle the estate of a close friend who had passed away, I got into the automobile finance business and built that up to a multimillion-dollar operation. But I didn't like that business and sold out.

### What didn't you like?

I don't like the kind of business where somebody has to come in every month and pay you. Especially when you know some of them can't pay regularly.

### Mr. Fuqua, how do you feel about business people going into politics?

Every business person should seek an opportunity to be active in politics. Business people should take a greater interest in the government than they do.

### Is it true that you helped Jimmy Carter get where he is today?

President Carter tells the story in his autobiography. It really involves President Carter more than it does me. When Jimmy Carter ran for the Georgia Senate there was, I was convinced, some fraud involved in the primary

election. I was also convinced that although the vote was against him, he had won the Democratic nomination. As the party rules were written at that time, and as the law was written, it was the responsibility of the party chairman to certify the nominee. I certified that Jimmy Carter had won. At that time, I had never met Mr. Carter. I don't take any credit in any of this; I only did what I thought was right.

### In 1970, you backed former Gov. Carl Sanders when he tried to make a comeback and was defeated by Jimmy Carter for governor. Didn't some ill feelings develop?

Well, this was a political contest. I played only a minor part in it. In 1962, however, when Carl Sanders first won the governorship, I was extremely active and devoted my full time to his election.

### What is your relationship today with President Carter?

Very good.

### How do you appraise his Presidency?

There are so many different elements, I would prefer not to discuss it.

### Well, then, what do you think of his latest energy proposals?

I think the proposal to put a tax on the oil and gas producers is foolish. I think that price controls on oil and gas should have been lifted several years ago. From a practical standpoint, I know a little bit about this. Much of my personal wealth came from the oil and gas business.

Two years ago, if you remember, we had a crisis with natural gas. Then Congress passed a gas bill whose net effect was to lift the ceiling on natural gas prices. You have not heard a word about natural gas shortages since.

### Are we in a great deal of trouble for the immediate future?

I don't think we're going to run short of petroleum in my lifetime and maybe not for several generations. Only five percent of the earth has ever been explored for oil and gas.

### Do you find it more difficult to deal with government—government at all levels—than in past years?

By far. The most difficult part is dealing with the entrenched bureaucracy.

### Why did you drop out of politics?

My interest was to expand in business.   
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Former Georgia Gov. Carl E. Sanders, left, is a director of Fuqua Industries and a close friend of Mr. Fuqua, who backed him in the 1970 campaign.

ness, not politics. I began a search for a company that had a listing and no debt. And, of course, one that I could afford to buy. That turned out to be Natco, which was on the New York Stock Exchange and was the largest manufacturer of brick and tile in the country. It had run out of product and management and everything. I turned Natco around in a short while.

**That was the beginning of Fuqua Industries?**

Yes. A public relations firm recommended I name the company after myself. I don't know if that was a mistake. People didn't put their names on companies very much anymore.

**What do you look for when you buy a company?**

First, we look at the record. We look to see that it has good management.

**How many companies has Fuqua acquired?**

About 40. We have sold about ten along the way.

**When you buy a company do you clean house or keep the people who**

**have been running the business?**

We try to keep the management already there. It's cheaper that way. At the heart of Fuqua today are the people who have come to us in these acquisitions.

**I know you take a great deal of pride in how you handle the people who work for you. How do you motivate them?**

Simply by recognizing them as individuals. By giving them credit for what they do and making them feel they are making a real contribution to the company.

**How do you handle morale?**

I've always said that morale flows from the top down, never from the bottom up.

**How many people work in corporate headquarters in Atlanta?**

No more than a hundred. Including office boys, secretaries—everybody.

**That's a relatively small corporate staff for a business the size of Fuqua Industries. Are there advantages to that?**

We feel that the basic day-to-day and hour-to-hour management decisions should be made by those who are closest to the problems. They certainly are closer to the problems than we are sitting here on the 38th floor in Atlanta.

**You have a reputation for not liking to write memos, so how do you keep in touch with your subsidiary operations?**

Almost 100 percent by telephone. The company has grown so large I can't keep in touch with them as much as I used to or would like to. But in the course of a year, I will touch base with everyone several times.

**What's a typical day for you?**

I'm a night person, not a morning person. I don't get up early, and I don't come to work until about 10:30 in the morning, but I don't usually leave until seven in the evening. I am much more productive between five and seven in the evening than I would be if I were here for several hours in the morning.

**Does that mean everyone stays until the boss leaves?**

Oh, no. There are many times when I am here pretty much alone. If we have people who feel they are more productive in these late hours, and their jobs allow that kind of scheduling, I encourage them to work in that way.

**Do you take work home?**

Yes, primarily reading matter.

**Do you also read for pleasure?**

I haven't read any fiction for at least 25 years. I simply don't have the time for it. But I'm a rapid reader, and I go through a vast number of business magazines and papers and business books.

**How do you relax on weekends?**

In my younger days I worked on Saturdays and Sundays. I have backed off from that.

But I do have my office mail delivered at home every Saturday. More and more, my wife and I go off on the weekends. Usually I can tie in some business.

We are so geographically diversified that wherever I happen to be traveling I can conduct business. Also, I am much more productive to the company when I am away from the office in Atlanta.

**And is that relaxation for you?**



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Yes, because I don't play golf or tennis or anything like that.

**Was there some point in your life when you said: Now I am a success?**

I wouldn't know how to describe success. Success to some people is one thing, and it is entirely different to others. It depends on what your goals are. In my case, one of my goals—but only one of many—was to be worth a million dollars by age 35.

**And were you?**

Yes.

**Any other goals?**

I wanted to operate a large company. I think I am way ahead of myself at this point.

**What has given you the most satisfaction in your business life?**

I would say developing this company from zero to where it is now.

**The fact that you tried and failed to buy Avis—was that a major disappointment?**

Avis looked very attractive as an acquisition because I was very anxious to get into the international field and with a product or service that would be pretty much universally known. Avis fitted every aspect of that ambition.

No, I was not greatly disappointed that we didn't get Avis. We demonstrated that we had both the courage and the capital to enter into an arrangement of this magnitude. We were talking about a \$140 million deal.

I knew that out of this would come other opportunities because of the publicity that accompanied the negotiations. Other opportunities did start to flow as a result.

**Is it true a newspaper reporter was partly responsible for helping Fuqua Industries become a billion-dollar company?**

In a sense, that's true. During the Avis negotiations, this reporter commented that acquiring Avis would make us a billion-dollar company. That was correct. Then he asked: "Would you like to have a billion-dollar company?" I said I would. He wrote a story in which he said that my ambition was to have a billion-dollar company by the time I got to be 60.

Actually, I hadn't given it that much thought. But all of the younger people in our company got enthusiastic and kept talking about how we were going to be a billion-dollar company. So I had

a lot of pressure from within to do something about it.

After Avis fell through I began looking at various other companies. National Industries attracted me. I contacted one of the principals, and we made the deal in about three weeks. National had \$1 billion annual sales.

**Is it true that you tell your executives: If you want to get ahead, you have to train your successor?**

I have certainly posed the question: "What if you are suddenly run over by a car? Who takes over?" We all too often see men and women lose opportunities because they have made themselves indispensable on the job. They have failed to train somebody to take over. Thus, when a position becomes available, management will leave that person where he or she is, because he or she doesn't have a replacement.

**Does everyone in responsible positions at Fuqua have someone right behind them?**

I certainly hope so.

**When you were growing up, was there a hero in your life? Someone whose success you wanted to emulate?**

Yes. There were Lindbergh, Einstein, Edison, sports figures like Babe Ruth and Knute Rockne, and others. These were the kind of clean, fine, upstanding individuals whose life-styles one would want to imitate. They inspired young people. We just don't seem to have heroes like that today to inspire us.

**Are there opportunities for young people today to achieve what you have achieved?**

More. Young people are better educated. Even if I had been able to go to college, there weren't more than a handful of business schools. Now, there are many. The young people we hire today are almost exclusively products of business schools or law schools. They are much better educated. Also, the access to capital is much easier than it used to be. So they are afforded more opportunities.

**Where do you think America is headed?**

Well, I am an optimist. I don't think we have to worry much about the future of America.

**What would you say is the greatest problem facing America today?**

NATION'S BUSINESS • JULY 1979



The popular answer would be to say inflation. Actually, I think the greater problem is deflation. If one looks at a broad cross section of history, deflation is something to be really concerned about. If you take a span of time like the past 75 years, you will see we have had periods of depression, deflation, and inflation.

The people are much better off in periods of inflation rather than deflation. I don't say we are going to have deflation, but it is something to be concerned about. The kind of deflation I'm talking about—where you have high unemployment, and taxes have to be raised to the point where the employed support those who are out of work—would be a catastrophe in this country.

**Where do you stand on wage and price controls?**

I am against them. Throughout history, they have never worked.

**Do you have any advice for President Carter on how to handle inflation?**

I don't know what I would do differently. I don't think the administration can do much about it.

**You think inflation is out of control?**

I think it is. It has been demonstrated, for example, that raising interest rates will not slow inflation, and that's the only real weapon the federal government has used. As we can see, it has proven to be useless.

**Is inflation irreversible?**

No, it will turn around. But I see no prospect of that at the moment.

**Would you do anything differently if you were starting all over?**

Well, I have always devoted 100 percent of my time to business. I have not learned how to do things outside of business. So I am faced with a situation at 61 where I don't have any outside interests. Every businessman should develop some interests other than his business.

So to answer your question, if I had to do it all over again, I would at least play golf and tennis. I would have some outside interests.

**Is retirement something you think about?**

In a few years, I will have given Fuqua Industries everything I can give it. The strategic direction of the company

will have to be turned over to younger people.

**What then?**

I already have a plan. I have just gained working control of a closed-end investment fund to use as a vehicle for starting all over again. I am going to have a second business career.

It has been publicized. It's a little company on the American Stock Exchange with assets of \$16 million, all in cash or equivalents, no debts, and about 4,000 stockholders.

**Then essentially, you would be retiring from Fuqua Industries?**

Yes, to start all over.

**This seems to have a lot of appeal. Why?**

It's the only thing I know how to do. I wouldn't recommend it to others, but you asked me specifically what I would do, so I am telling you.

**And you will continue, then, to be just as active as you are today?**

Yes.



To order reprints of this article, see page 68.



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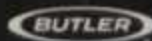
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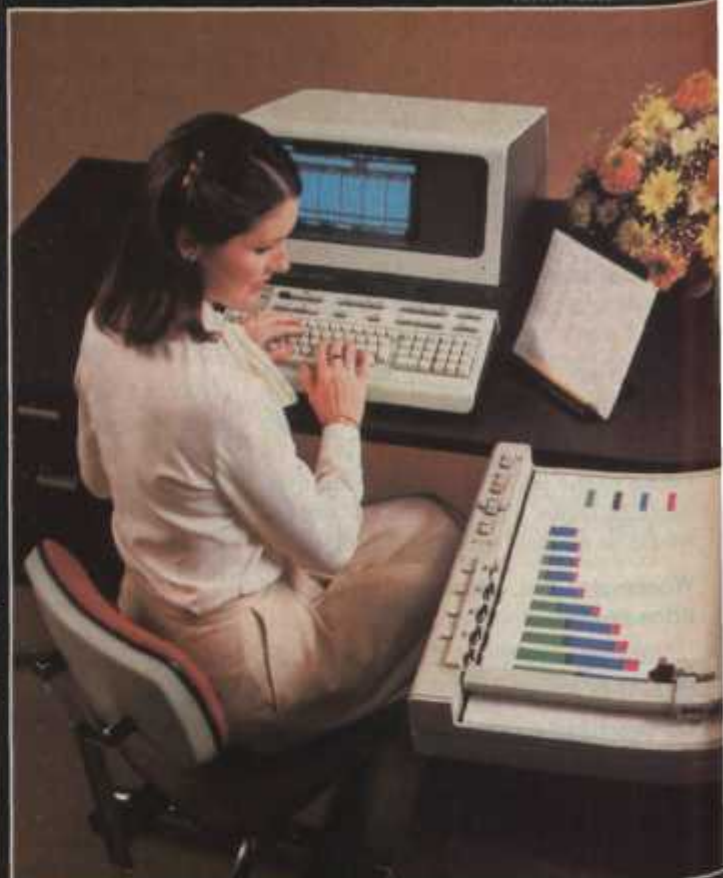






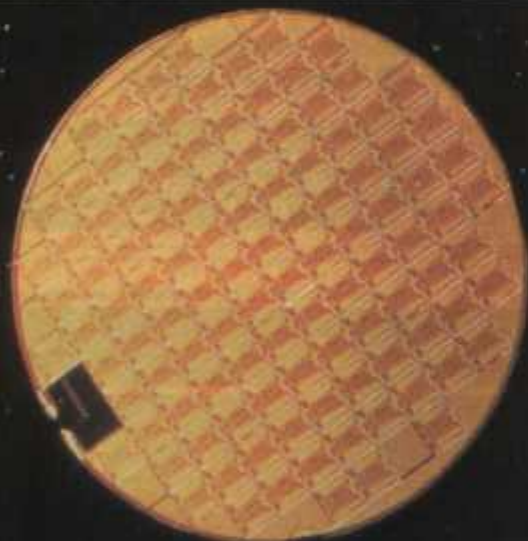
Most big department stores now rely on computers to keep track of sales and inventory. The net result is improved efficiency.

PHOTO: IBM



Computers can be programmed to turn masses of business statistics into easy-to-understand charts and graphs.

PHOTO: IBM

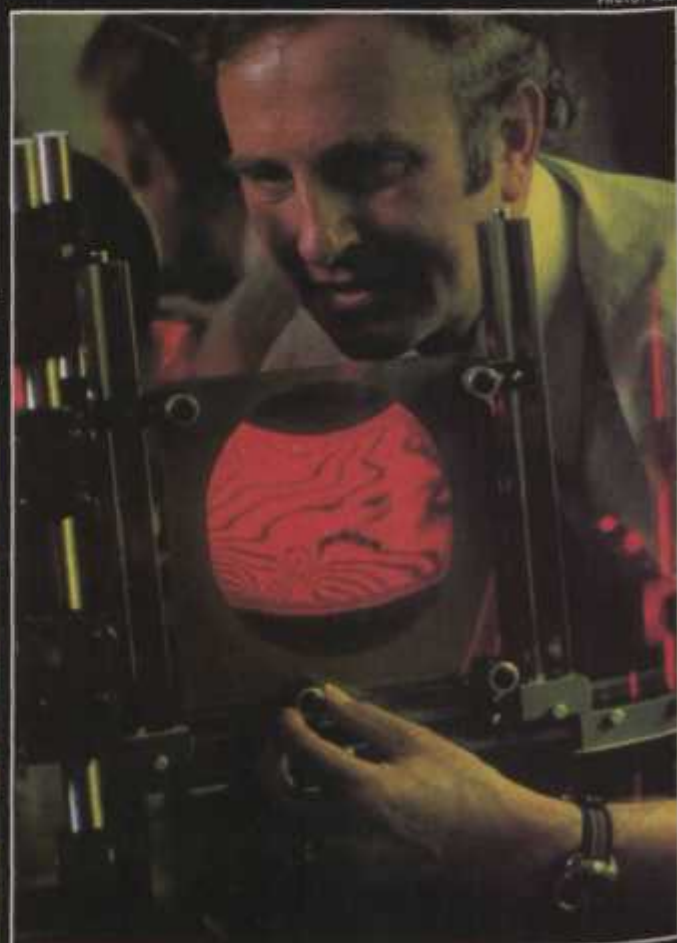


Computer data are stored on silicon chips. Each of the 109 chips in this 3¼-inch wafer holds 64,000 bits of information.

PHOTO: SPERRY UNIVAC



Airline reservations would be chaotic without computers to tell the clerks what plane is going where with how many people.



The computer industry thrives on innovation, which results from intensive research using such methods as laser holography.



# COMPUTERS:

## Remembering Yesterday, Programming Tomorrow

By Michael Thoryn

IF TECHNOLOGY had changed the automobile as much as it has computers, Americans would now own half-pound cars costing \$2.70 and getting 1.5 million miles to the gallon.

Of course, a half-pound car is unlikely to carry a 150-pound person very far.

ours is one of the few industries that, year after year, can give its customers greater performance for the same cost or the same performance for substantially less cost," says William S. Anderson, chairman of the board and chief executive officer of NCR Corp., Dayton, Ohio.

## Nation's Business INDUSTRY SPECIAL REPORT



The quarter-inch-square chips, unveiled in 1971, produce cheap, convenient, and efficient computing power. "Recent hardware advances reduce to one common denominator: The miracle of the chip," says Carl Hammer, director of computer sciences in Washington, D. C., for Sperry Univac.

The chip technology has fed an almost insatiable demand for computers, says Frank R. Kline of International Data Corp., a market research firm in Waltham, Mass. There are easily a million computers in the world, Mr. Kline says, compared with less than 300,000 five years ago.

### Retail outlets

They range from giant scientific research machines built by Cray Research, Inc., Chippewa Falls, Wis., to minicomputers made by the Digital Equipment Corp., Maynard, Mass., to the \$600 personal computer introduced by Radio Shack in 1977 for sale in more than 7,000 retail outlets.

As chips replace the older, bulkier components, computers can be located almost anywhere—in hospitals, schools, zoos, and discos, and in businesses of all sizes. Computers are saving energy in 50-story office buildings and figuring the odds at racetracks and casinos.

With ever-expanding acceptance and use of computers, information accumulated, organized, stored, interpreted, retrieved, and transmitted has become as vital a resource as coal.

### Better life

In fact, says an IBM spokesman, we are entering an Information Age, "a postindustrial stage of development in which the ability to put information to use has become critical, not only to the essential production of goods but also to the achievement of a better life for individuals."

The advantages of computers in handling information have developed from a long chain of methods used to record mankind's observations and achieve-



Computers, once known as number crunchers, have shrunk since the late 1940s when a soldier could stand inside ENIAC, the first electronic digital computer.

But with computers, smaller, cheaper, and better are 30-year constants.

Room-filling, multiton devices have given way to hand-held machines with the same computing power. The best computer of 1956 could do 500,000 steps of arithmetic in a second; today, the best will do eight billion steps a second.

Computers, which can make life more tolerable by taking care of routine tasks, are a strictly modern phenomenon, a world removed from the ancestral abacus.

"Because of explosive technology,

"And the end is nowhere in sight," he adds.

"Never in the history of science and technology has a cost-performance ratio decreased as much as it has in the computer industry," says Louis Robinson, director of scientific computing at International Business Machines' data processing division.

While almost every other product has gone up in price, computer components have become consistently cheaper as they have evolved from vacuum tubes in the 1950s to transistors in the 1960s to today's silicon chips.





Unlike the auto industry's rolling assembly lines, these IBM processors are stationary; workers and components do the moving.

ments. By about 2500 B.C., priests in Mesopotamia were inscribing information on clay tablets, which were then baked and stored for reference.

The printing press, invented in 1440 by Johann Gutenberg, eventually made the printed page the most efficient information source—until computers.

The 1890 U.S. census would have taken more than ten years to compile without the inventiveness of Herman Hollerith. An engineer and statistician, he devised a series of electrical machines that added data fed into them on punched cards.

In 1944, researchers at Harvard University and IBM completed five years of work on the Mark I, the largest electromechanical calculator ever built. It had 3,300 relays and weighed five tons. From then on, faster has invariably meant smaller.

Building on 30 years of postwar advances, the computer industry is among the healthiest in the country. The college dropout founders of Apple Computer, Inc., now a multimillion dollar concern in Cupertino, Calif., started with a small investment and a spare garage and developed one of the earliest personal computers.

The industry is holding its technologi-

cal lead against a worldwide challenge, particularly from Japan, according to the Computer and Business Equipment Manufacturers Association, which reports that the favorable balance of trade last year was \$2.8 billion.

Total industry employment including manufacturing workers, programmers, system analysts, repair technicians, and keypunch operators—a declining category as technology advances—is estimated at 1.37 million by the Bureau of Labor Statistics.

### Big buyer

The Commerce Department predicts a 15 percent rise in computer equipment sales this year to \$17.7 billion; instrument and process control sales are expected to increase by 14 percent to \$8.7 billion.

The federal government is a big buyer. Its spending on automated data processing, data communications, and allied electronic equipment is growing at \$10 billion a year, or about one fifth of the estimated \$50 billion depreciated investment the government already has in such equipment.

Although hardware used to be 80 percent of data processing costs, people are now the biggest dollar item. According to a survey by *Datamation* magazine, steadily dropping hardware costs have propelled personnel to 53 percent of data processing budgets compared to 35 percent for hardware.

At one time, computers were far from the public eye, handling inventory, payroll, or scientific studies in windowless rooms. But desk calculators have blossomed in front offices, and computer technology is becoming more visible. Terminals are being installed in department stores, at supermarket checkout counters, and at 24-hour automatic tellers outside banks.

### Cooling cycle

Soon, microprocessors will be all over, controlling the cooling cycle of a refrigerator and adding intelligence to office typewriters, microwave ovens, cars, and production machinery. "We won't even recognize them," says Martin L. Ernst, vice president of management sciences at Arthur D. Little, Inc., management consultants in Cambridge, Mass.

Among the many roles that computers play today:

- It's a solution to business problems. Computerland, of San Leandro, Calif., a nationwide chain of computer stores, says: "With systems starting at less than \$6,000, the business person can computerize accounting, inventory control,

record keeping, word processing, and more. The net result is the reduction of administrative overhead and improvement of efficiency."

- It's an aid to business decisions. In one sophisticated arrangement, a cooperative computer at Strategic Planning Institute in Cambridge, Mass., provides 230 companies with information based on facts collected anonymously. "You compare yourself statistically to a company similar to yours," one user says. "The program calculates what kind of profits you ought to make and what strategic moves other companies have found successful."

- It's a learning tool. Many of the current generation of children consider the computer a friend because it helps with mastering math and language skills. In upper grades, computers programmed with career information help students choose jobs and colleges.

- It's a boost to productivity. General Motors is developing microprocessors for electronic robots to "see" moving parts on a conveyor belt, pick them up, and transfer them to another location.

### Direct competitors

Along with growth and innovation, the computer industry is whirling with controversy.

Computer sciences and telecommunications have merged in a new technology—data communications. As a result, AT&T, the regulated communications giant, and IBM, the world's largest manufacturer of computers, are becoming direct competitors.

Data communications, the machine-to-machine transfer of information, usually at hyperspeed, is the major growth area for the computer and telephone industries. AT&T is seeking government approval to offer a computer-like Advanced Communications Service that would allow dissimilar data processing machines to talk to each other. IBM says AT&T should be able to supply the service only on a nonregulated, fully competitive basis.

What concerns IBM and many smaller high technology firms is the possibility that AT&T could subsidize its rates with revenue from regulated services.

Stephanie Biddle, communications director of the Computer and Communications Industry Association, which represents 70 communications equipment and data terminal firms, says: "Consumers of AT&T's monopoly services should not subsidize the company's entry into competitive markets."

Some clarification could come from Congress's present rewrite of the Com-



munications Act of 1934. One proposal to limit AT&T would make the phone company's various units operate at arm's length from each other and deal with competitors on the same terms as with each other.

While AT&T struggles with Congress, a lawsuit alleging that IBM unfairly dominated the computer industry in the late 1960s has started its tenth year in a New York federal district court. None of the systems IBM builds now was on the market when the Justice Department filed suit. "It's the Methuselah of antitrust cases," says IBM Chairman Frank T. Cary.

### Good beginning

On the legislative front, Congress has been challenged by President Carter to "establish a broad national privacy policy to protect individual rights in an information age." Mr. Carter notes that Congress has made a good beginning in privacy legislation, but that individuals should know what kind of information is being collected about them and should have the right to correct faulty records. Governmental access to personal information should be limited, and provision of personal information to researchers should be protected, the President says.

The computer association says information can be equally useful or damaging whether it is obtained from a manila folder, a file cabinet, or a computer terminal. For private employers, the association says, the focus should be on the kind of information kept and "how prudently it is controlled by the owner and system user."

Under the Fair Credit Billing Act of 1974, consumers can avoid being billed for an item they have already paid for. The act requires retailers, lenders, and credit card companies to investigate and resolve written inquiries or complaints about bills within a specified time.

### Modern stealing

Computers are even used to monitor other computers. "Tampering with computers is a modern way of stealing," says William F. Main of Wackenhut Corp., Coral Gables, Fla. The company markets a minicomputer designed for automatic control of access to computer and tape storage rooms.

"The computer criminal may be a mild-mannered intellectual carrying a floppy disc or magnetic tape reel, but he is far more dangerous to a company than anyone carrying a gun," says Charles F. Jacey, a partner in Coopers & Lybrand, a national accounting firm based in New York City.

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Supplementing two-way radio, police in Portland, Oregon, have cut response time in traffic cases by using mobile terminals tied into a central computer.



Grocery lines move faster when an electronic scanner window in the checkout counter reads an item's Universal Product Code symbol for the price.

The firm has devised elaborate systems to safeguard clients' computers. The average reported corporate computer theft involves about \$500,000—armed robberies rarely top \$10,000.

When convicted, white-collar criminals often get light sentences. That would change if a bill by Sen. Abraham A. Ribicoff (D.-Conn.) is passed. Penalties for using a computer to defraud or steal would be set at 2.5 times the loss, 15 years in jail, or both.

While some trends can be expected to

continue, the long-term effects of computers and almost instantaneous data communications are only hypothetical. In the short run, experts are confident that:

- There will be smaller, more powerful units. Durango Systems of Cupertino, Calif., already calls its desktop F-85 the world's smallest big computer. It can be carried by hand and plugs into a 110-volt outlet. Users need only a day's training, the company says.
- Sales will soar. Arthur D. Little predicts





PHOTO: IBM



Besides improving office productivity, computers help manufacturers on the shop floor by distributing information to supervisors or production control stations.

real growth of at least 40 percent by 1983.

• Small firms will stake out market niches. Specialized software (programming) is being developed for tightly defined markets such as law offices, fuel oil dealers, and small insurance agencies. Larger firms like TRW, Inc., of Cleveland, Ohio, offer nationwide maintenance service.

Estimates vary on how soon computers will be common in homes, potentially the largest market. "One key will be the

degree to which the computer becomes an entertainment feature," says Mr. Ernst of Arthur D. Little.

The average household may not be complex enough to need computer aid for budgeting or menu planning. However, a home computer could be used for viewing a newspaper, book, or reference source or registering a vote on a local *Gang Show* or town hall program.

Not far off is Teletext, a joint venture of KSL-TV in Salt Lake City and Texas Instruments, that would directly compete

with newspaper advertising. The service would enable a viewer to call up on the home television screen about 120 pages of advertising and consumer information, ranging from road conditions to theater schedules.

But the Teletext use of TV as a data display is still experimental. The boom in small business computers is happening now. International Data estimates that sales of small units jumped from \$150 million to about \$1 billion last year, with \$2.6 billion expected by 1982.

Ever cheaper computers and their communications links may eventually eliminate office paperwork. Futurists predict a terminal, keyboard, and view-screen on every desk. The terminal, which would be connected to the main office computer, would be used for research, sending and receiving mail and memos, and editing. A printer nearby would supply a paper copy if needed.

### Rooftop antennae

Computers are now able to communicate with each other; the next few years will see more data bounced off satellites to rooftop antennae like those of the fledgling American Satellite Corp., Germantown, Md. In the early 1980s, Satellite Business Systems, a partnership of IBM, COMSAT General, and Aetna Casualty & Surety, will also have a network of rooftop antennae.

Intensive research in many areas will result in breakthroughs. For example:

- Faster circuits. Computer circuits built of superconductors—metals so cold that they have lost all resistance to electric current—are 100 times faster than those now in use.
- Better memories. Microscopic bubble memories use magnetism to store up to a million bits of information on a chip.
- Voice recognition. By 1985, projected increases in chip density may permit voice-activated systems with vocabularies large enough to allow people to talk back to computers.

Dr. Hammer of Sperry Univac predicts that computers will ease energy shortages by the turn of the century under the slogan: "Communicate, Don't Commute."

"A good deal of the work we now do gregariously at our working locations can be transferred to our homes or to community offices with full communications. With that, commuting could be reduced to less than one percent of its current level, and travel may again become a pleasure rather than a dangerous chore."

## Engage Brain Before Computing

A small business computer could be a \$15,000 mistake. It can solve many problems, but it can create some, too.

Jack Stone, a consultant based in Washington, D.C., offers some suggestions to "cool the ardor" of those business owners planning to buy their first computer.

Don't install without a long-range plan that projects computer capacity against expected workload.

Do explore alternatives of equipment and software—collections of program instructions that direct the processing—from a number of vendors.

Don't forget that computer systems nearly always affect the way a busi-

ness is run. Be prepared to change internal operations and even organization to take advantage of the computer's capabilities.

Do be sure to see a demonstration of packaged systems and check customer references before you write the purchase order.

Don't ignore the negative effects that new in-house computers still have on many employees. Introducing a new system improperly may cause severe personnel problems. There are documented cases of organizational chaos that resulted when computers were figuratively "crammed down employees' throats," says Dr. Stone.



To order reprints of this article, see page 68.



## national health care expenditures . . .

Source: U.S. Department of Health, Education, and Welfare



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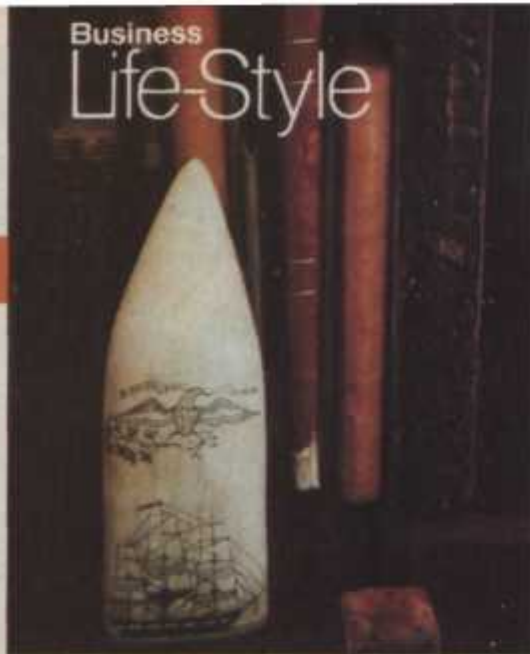
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**Health/Action** 7/79





Etching a whale's tooth is tedious but satisfying.

PHOTO: EDUARDO LATOUR—UNIPHOTO



PHOTO: MICHAEL PHILIP MARKEIM—PHOTO RESEARCHERS, INC.



Patience and persistence are a woodworker's stock in trade to make every detail perfect.

Berni Schoenfield, who makes wall clocks and flower stands, sells his products at shows.

A router, drill, and circular saw are basic woodworking tools.

PHOTO: EDUARDO LATOUR—UNIPHOTO



PHOTO: MICHAEL PHILIP MARKEIM—PHOTO RESEARCHERS, INC.



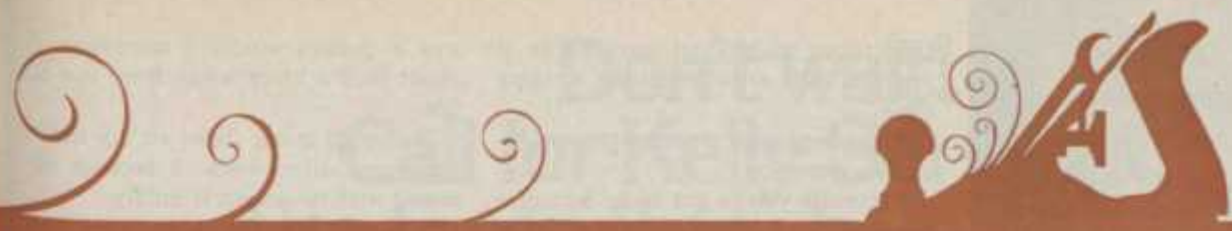
Barbara Spear-Scully started "fooling around with clay" out of sheer boredom. She now sells her porcelain figurines to shops.



"You've got to be sort of a masochist to do this," says Malcolm Smith, who got into welding because he needed a trailer hitch.







## HOME WORKSHOPS

# BUSTED THUMBS AND SINGED SHIRTS

By John Costello

**L**UNCHTIME at the Engineers Club finds Robert B. Killen heading for his favorite table. It's a big, round one that seats up to 12 people. And it's often full.

Bob Killen is chairman of the board of Dayton Power & Light Co., Dayton, Ohio.

Who will be lunching with him?

Other business people like Clarence H. Westendorf, vice president and treasurer of Dayton Casting Co. Maybe George B. Stillwagon, Jr., chief engineer at Apex Machine and Tool Co. Perhaps Conrad W. Hansen, president of LaCon Pattern Works, Inc.

They're all regulars at the table.

What brings public utility executives, corporate-treasurers, chief engineers, and patternmakers together.

"Our hobby," Mr. Killen explains. "We're all woodworkers."

Their lunches take place in the first-floor dining room of the handsome, old club in downtown Dayton, at the woodworkers' table.

What do they talk about?

"Oh," says Mr. Killen, "single-purpose tools versus multipurpose tools, for example."

"That's always a hot topic."

Mr. Killen's workshop is in his basement. Other hobbyists set up shop in their garages.

The woodworking fraternity may not outnumber joggers or golfers. But there are many of them out there, with lathes turning, saws whining, hammers pounding—sometimes punctuated by screams of pain and profanity.

Says one home workshop addict: "Sure, we're the Order of the Busted Thumb."

**N**OT ALL are woodworkers. Some are metal-benders, skimshanders, potters, or wood-carvers. But most of them use some power tools.

So the sales figures for these are a rough index to the growth or size of woodworking.

Last year, says John W. Sullivan, president of the Power

Tool Institute, manufacturers' sales were \$817 million. "In recent years," the industry spokesman says, "sales have been growing at nine to 11 percent a year."

Woodworking has a modest entry fee.

"The three basic tools you need in a home workshop," Mr. Sullivan says, "are a  $\frac{3}{8}$ -inch drill, a router, and a  $7\frac{1}{4}$ -inch circular saw. You can get all three for \$125 to \$150. Maybe less, if you shop hard."

Mr. Killen got his first multipurpose Shopsmith power tool in 1956. It was a Christmas gift from his wife and children.

But woodworking has been his hobby since he was in knee-pants.

"I think that's how it got its grip on me," he says. "My father had a workshop. I grew up doing woodwork."

**M**OST AMERICAN KIDS are exposed to cutting grass at an early age, too. But few of them, Mr. Killen admits, make a hobby of it.

"Woodworking is something you can do at any time, even in short intervals. You can spend 15 minutes at it profitably."

"I love to play golf, too, but it takes half a day."

"With woodworking, you can go down into the shop at any time. It's a few steps away. You don't have to get up a foursome, either. You can do it alone, whenever you want."

"Then afterward, you've got something you can admire, enjoy, and display."

Mr. Killen used to make practical things like built-in desks, cabinets, and tables.

"Now," he adds, "I'm working in a new direction. I'm into traditional furniture—Queen Anne style, for example, with curved legs and ball-and-claw feet. So I work a lot with hand tools."

"The built-ins were knocked out kind of fast. Now, I'm working more carefully."

A white shirt and a four-in-hand tie? A business suit and wing-tip shoes? His classmates were astonished when F.





PHOTO: NATIONAL WOOD CARVERS ASSOCIATION

Thomas H. Cassidy of Morris, III, shapes the nose of one of his larger works.

Malcolm Smith waltzed into the welding class. Somehow he just didn't fit in with the blue-flame arcs, the smoking metal, the hot, flying sparks.

Okay for an insurance office, but not for welding at Atlantic Vocational Center in Coconut Creek, Fla.

"I did look out of place," says the vice president of Smith, Watson, Parker Insurance, Hollywood, Fla.

"I didn't know that in welding you wear jeans and long-sleeved shirts, both usually burned full of holes by flying sparks. I'm sure the instructor didn't think I would last a week.

"This was a hobby for me. Everyone else was there to learn the trade. Usually, that takes about a year. But I've been there for two years—longer than anyone else."

Thus, the best welder in Florida may be an insurance executive.

Malcolm Smith was once a woodworker. Now he's a welder and metal-bender.

Blame it on a trip he took to Flint, Mich., or on relatives.

"Back in 1974," he says, "we were going to visit relatives at Christmas. I had this Lincoln Mark IV, and there wasn't much trunk room in it.

"I had to buy a trailer just to carry clothes for my wife and teenage daughters. They don't travel light.

"Ever try to back up a trailer? It drives you crazy. It goes just the opposite direction that the car travels. It jackknifes.

"I decided to design a trailer hitch that would make the trailer back up the same way my car did. I had to make it out of metal. And to get any-

thing done right, you have to do it yourself. So I enrolled in the welding class."

What began as a necessity soon became a romance.

"Actually you've got to be sort of a masochist to do this," he says. "You're welding along, and you're getting a beautiful weld.

"All of a sudden, a spark hits your shirt or pants and starts burning. Well, you try to shake it off without ruining the weld you're making.

"But a lot of times, you just have to stand there and take getting seared so you don't ruin the weld.

"To weld for a living is a tough, dirty job. And it's heavy work. You have to move a lot of metal around."

Why is a rotten job a swell hobby?

"If you do it for fun," he says, "it's different. Welding is a real science. Each job is a new challenge. Some things you weld electrically. Some things you gas weld. If you get into aluminum, you have to helio-arc weld."

**T**HERE IS another fringe benefit. Standing there with your welding arc glowing, sparks flying, pants on fire, shirt smoldering, you forget about a lot of other problems.

Like life insurance.

"It's a total change of pace," Mr. Smith says. "In business, you're handling customer problems, reading policies, dealing with cash flow, collecting money—the problems are all mental.

"Then you get into metal work. It's a different world."

Grim necessity got Malcolm Smith into a home workshop.

For Barbara Spear-Scully, it was sheer boredom.

She owes not only her hobby but also a prosperous new career to the Small Business Administration. However, hers may not be the kind of success story SBA will want to crow about.

"I graduated from Hofstra University with a degree in fine arts," says the founder and owner of Spear-Scully Porcelain. "But I couldn't get a job as a fine arts teacher.

"So I wound up in the worst of all possible worlds—a secretary in the federal government.

"I worked for the Department of Agriculture, and then for the Small Business Administration.

"In the meantime, I started fooling around with clay.

"I had had some ceramic courses in college, and some of my friends were working with clay. But the clincher

was a pottery studio I stumbled on about half a block away from my office.

"I started going there on my lunch hour and after work. I became obsessed with it—to put it mildly.

"I rented space for \$10 a week and began spending all my spare time there and whenever I could sneak away from the office."

**W**HY an obsession with a gooey silica? "I never liked painting," Ms. Spear-Scully says, "although I was good at it. But clay is different.

"There aren't any rules. It starts out as just a blob, and you can do anything with it. You can push it around and make it do what you want.

"I really did strange things with it—monsters and mythological creatures, for example."

Soon, her creatures were crowding her out of her two-bedroom, second-floor walk-up in Brooklyn, N.Y. So were the 50-pound cans of clay.

"In quantity," she explains, "clay is cheaper, and they'll deliver, although they don't like to carry the cans up stairs. I'd buy half a ton of clay at a time, but the floors of the old walk-up wouldn't bear that heavy a load. So I'd spread it out, cans all over the apartment. Under the bed, holding up bookcases, everywhere."

She solved the population explosion of porcelain figurines. The Mad Monk and other pottery shops in Manhattan found they would sell.

Two years ago, she started her own firm—Spear-Scully Porcelain.

"I sell all I can make," she says.

**I**F YOU HAVE lots of patience and are fond of whale teeth, scrimshaw may be the hobby for you.

It is for Arthur J. Weber, manager of marketing administration in the record systems operation at A.B. Dick Co.

"I read an article about it in TWA's in-flight magazine in September, 1974. It was fascinating."

A few weeks later, he bought a few sperm whale teeth and was scribing away—a confirmed skrimshander.

"Only sperm whales have teeth," says the Chicago executive.

"And only in the lower jaw. The teeth fit into sockets in the whale's upper jaw. Most whales don't need teeth. They feed on plankton. But sperm whales live almost exclusively on giant squid."

Scrimshaw is an old whalers' hobby. On their long sea voyages, many sail-

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ors etched drawings—often whaling scenes—on the ivory-like teeth taken from their prey.

Presumably, they did it to kill time. For that, you can't beat scrimshaw.

"It is a tedious task," Mr. Weber admits.

"A whale tooth, when you buy it, is an awful looking thing. It's full of ridges. You have to file it, sand it, and polish it before you can put a picture on it. It has to be polished to the sheen of marble.

"Some people use power tools to polish and sand. I don't. I figured it would be more fun to do it the way the whalers did, by hand."

It takes Mr. Weber about six hours to get a tooth ready to etch. That's slow work, too.

"When you etch," Art Weber explains, "you don't dare let that scriber slip. So you etch very carefully. It takes a fair amount of pressure to cut into the tooth."

"What I do is start the design, which I have sketched out with pencil first, then fill in the lines with india ink—to see where I'm at."

"You can't see what you scribe very well unless you fill in with ink."

"So I just keep scribing and inking, scribing and inking, shading and inking, until I've finally got what I want."

All this, of course, must be done with the help of a magnifying glass. The scrimshander works on a very small surface.

"A big whale tooth may be six or seven inches long," Mr. Weber explains. "A small one may be only three inches."

What he considers his finest work is a whaling scene that took months to finish.

It shows the sky, the sea, and a big sperm whale attacking a dory whose six-man crew is flying through the air, along with oars, smashed boat timbers, and a wooden basket that holds a coiled harpoon rope.

"All that's on a tooth maybe five inches long," Mr. Weber says.

**B**OTH ART WEBER and his wife were red hot to save the whales. That movement, however, has dried up the supply of whale teeth for scrimshaw. It's now illegal to bring the teeth into the United States. Mr. Weber has a supply of old ones imported before the ban.

Teeth and tools—"maybe 15 bucks worth," he says—fit into a shoe box.

What does he get out of this compact hobby?

"The same satisfaction," he says, "that an artist would get by producing a lovely painting. Or, like the feeling you might get if you spent Saturday afternoon polishing your car. After finishing, you would say: 'Boy, it looks good.'"

**T**O JUNE SOUTH, watching television is more than entertainment. Of course, she has her own way of doing it. "I will not sit in front of that set and stare at it without doing something," she says.

"When the TV is on, I sit down with a little box of tools in my lap and roll up a table. Then I listen—and carve. When it sounds as if they're getting ready to do something, like jump off a building, I look up and watch."

"Then I get back to my carving."

"By the time the program is over, I've accomplished something."

June South is a lease analyst in the land department at Lingen Exploration, Inc., in Houston, Texas. But by avocation, she says, "I'm a woodworker and carver."

"Art is natural to me," she adds. "My father was a commercial artist. My mother is a very fine Byzantine tile artist and painter."

"I started whittling with a little penknife when I was nine or ten years old. Just whittling sticks, but I enjoyed it."

"Then I discovered that there's more to carving than just working with a penknife. I found out about gouges, skewers, chisels, parting tools—and some of the things you could do with them. So I started buying some."

**N**ow, she has about \$2,000 worth of power and hand equipment.

Ms. South studied painting at the Museum of Fine Arts in Houston.

"I've done just about everything in the arts over the years," she says, "in copper and all kinds of sculpture, both stone and clay."

But she's one of the founders of the Houston Area Wood-Carvers Club, and she likes wood-carving best.

Why?

"Because I like challenges," she says, "and carving is very challenging."

"Also, wood is one of the most beautiful things in the world. I love the grain, the flow of lines, and the symmetrical balance of wood. It's a marvelous feeling to turn a block of it into something."

"And by the way, it's not just me. I know 183 carvers, and they all say the same thing. Once you start to carve, you never get away from it." □

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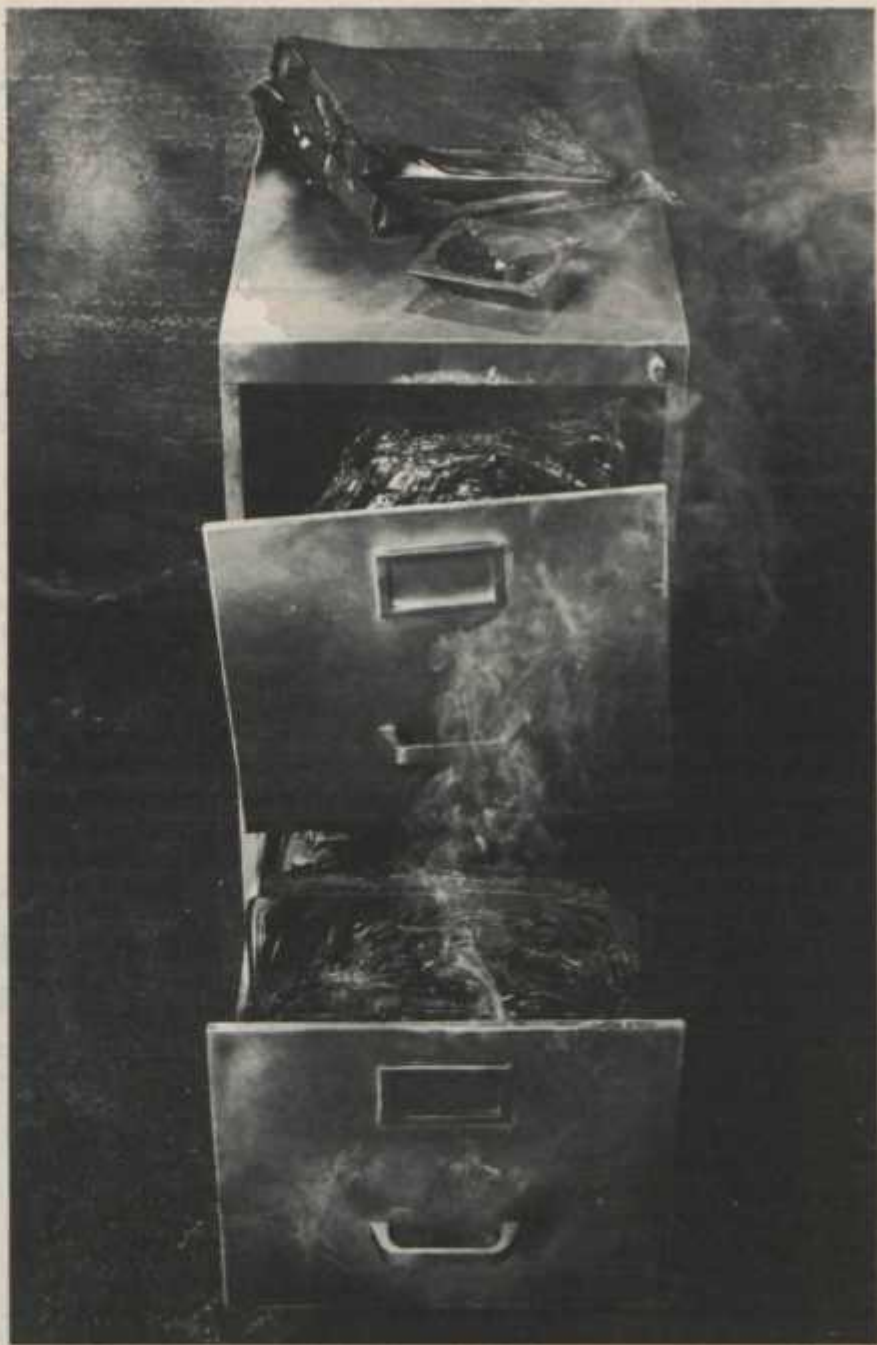
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# Business Can Count on the Census Bureau

**T**HERE's a classic story about the woman who wrote to the Census Bureau asking why it bothered collecting information when all it had to do was look things up in the World Almanac. She and many other Americans are unaware that the almanac as well as newspapers, magazines, trade groups, and businesses of all sizes depend on the Census Bureau, part of the Department of Commerce, for most of their basic statistical information.

"It's true we're not appreciated," says Shirley Kallek, associate director for economic fields at the bureau, "but when you read figures on trade balances or inventories or other business statistics, the Census Bureau is usually behind them."

Miss Kallek directs the economic censuses that collect data every five years from six million of the nation's businesses.

## Carefully crafted questions

Among the questions posed by the 1977 economic census of manufacturing, mining, transportation, retail trade, and other business activities are: How does my business compare with the average? What is my share of the market? Where should I locate a new outlet?

Ahead is the bureau's best known and most challenging task, the Decennial Census of Population and Housing. This statistical undertaking is set to begin on Census Day, Tuesday, April 1, 1980.

About 222 million Americans in 86 million housing units will be presented with carefully crafted questions on age, race, marital status, income, and other subjects—a potentially vast information bank of socioeconomic facts.

## Better forecasts

Using 1980 figures, manufacturers will be better able to forecast how many products they can sell and retailers will be able to pinpoint families with the largest disposable incomes. It's a long way from the first U. S. cen-

sus in 1790 that counted 3,929,326 people in 16 states plus the Southwestern Territory.

The billions of facts gathered in 1980 will be used extensively by the federal government, especially in the allocation of as much as \$50 billion a year in funds to states and municipalities for revenue sharing, health care, job aid, and other programs.

Cities such as Detroit and Atlanta want to avoid an undercount of hard-to-locate minorities. For the Motor City it could mean as much as \$9.5 million in financial aid.

The bureau faces a year of hard work. Since its major task is visible only once in ten years, people tend to forget about it. Although at least 90 percent of the information will be gathered by mail, 265,000 temporary employees will try to contact everyone reluctant or unable to reply. The collection budget is a shade less than \$1 billion.

Former Census Director Manuel D. Plotkin says final figures will probably confirm that the population is shifting to the sunbelt, metropolitan areas are growing more slowly, and the number

## Where to Call to Find Out How Many

Census data is available in published form, computer tape, and microfiche. To get the data to business, the Census Bureau maintains 12 aptly named data user offices. Here's where:

Atlanta, Ga. 30309  
1365 Peachtree St., NE  
Room 625  
(404) 881-2274

Boston, Mass. 02116  
441 Stuart St.  
10th Floor  
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26 Federal Plaza  
Room 37-130  
(212) 264-4730

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600 Arch St.  
Room 9226  
(215) 597-8314

Seattle, Wash. 98109  
1700 Westlake Ave.  
(206) 442-7080



# TAXATION AND TRADE NEWSLETTERS

of households has spurted 20 percent since 1970, even though population may grow only nine percent.

Businesses can make practical use of census data. For example, there is enormous potential for private business decision-making related to production and marketing of goods and services, Mr. Plotkin says.

## Greater profits

"Many astute business people will benefit from greater profits in the 1980s through the thoughtful study and interpretation of the distributions revealed in the 1980 census," he adds.

Retail and service store locations are often selected on the basis of the number and quality of potential customers living nearby.

A. C. Nielsen, Jr., president of A. C. Nielsen Co. in Chicago, a leading market research firm, says: "All marketers need various types of information to sharpen their sales messages ... in providing the right quality of products, with the right features, at the right prices, at the right time."

Mr. Nielsen says that his clients use census data to allocate sales, advertising, and promotional efforts; determine sales potential by area; and forecast long-term sales trends.

## Now being printed

In addition, the bureau points out, since all business is local and the census paints a local portrait, small business as well as giant industries can benefit from the data.

"We must from time to time take stock of ourselves and our people if we are to meet successfully the many national and local challenges we face," the bureau will tell Americans on the millions of forms now being printed that will be mailed next year.

And the nation will wait only five years to do it all over again. Congress decided in 1976 that ten-year-old data were too outdated to use in federal aid distribution formulas—the first mid-decade census is set for 1985. □

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# Is Your Business Still Small Enough?

**F**OR YEARS the Small Business Administration has ignored inflation in defining just who qualifies as a small entrepreneur.

The result has been discrepancies in the agency's size standards. A small business may be too big to qualify for a loan guarantee yet small enough to do business with Uncle Sam... or may no longer qualify as a small business at all.

Not only are the standards different for a business in both the loan and procurement categories but also size ceilings were adjusted four years ago by SBA without consideration given to the future impact of inflation on small business.

At that time, inflation was averaging 3.4 percent annually and had been

since 1954, the year the standards were established.

Since the last revision, inflation has jumped to an average annual rate of 7.4 percent—or a 30 percent increase in the cost of doing business.

Now, SBA is about to rescale all size standards.

By this time next year, a small business will be defined in terms of number of employees instead of annual receipts, and all loan standards will be combined into one program.

"It's got to change," says one government economist, "because these ambiguities do exist."

Due to congressional pressures on the agency to improve services to small business, the size changes will not eliminate any small firms now eligible

for special financial or procurement consideration. Rather, the loan programs will be consolidated at the higher procurement dollar level, making more small businesses eligible. And most likely, the overall revisions will open up the government procurement market to more small firms.

"By simplifying the loan standards, and using the number of employees instead of annual receipts," the economist notes, "the present discrepancies should be minimized."

The agency will detail its plans in the *Federal Register* sometime this fall. After small firms have commented, final standards will be adopted.

Until that time, the chart shows if your business still qualifies as small business. □

## BUSINESS LOANS

Wholesale Industries		Retail Industries	
Annual receipts not exceeding \$9.5 million-\$22 million depending on industry in which applicant is primarily engaged.		Annual receipts not exceeding \$2 million-\$7.5 million depending on industry in which applicant is primarily engaged.	
Manufacturing Industries		Service Industries	
Employment not exceeding 250-1,500 employees depending on industry in which applicant is primarily engaged, (additional criteria for petroleum refinery and food canning and preserving).		Not Defined Elsewhere	
		\$2 million	
		Hotels and Motels	
		\$3 million	
		Power Laundries	
		\$3 million	
		Electric Energy	
		(4 million megawatt hours/annum)	
		Hospital	
		(150 beds)	
		Motion Picture Products or Services	
		\$8 million	
		Engineering	
		\$3.5 million	
		Protective Services	
		\$3.5 million	
		Marine Engineering	
		\$3.5 million	
		Helicopter or Fixed Wing Aircraft Services	
		\$2 million	
		Janitorial Services	
		\$2 million	
		Base Maintenance	
		\$2 million	
		Cable TV	
		\$3 million	
		Marine Cargo Handling	
		\$2 million	
		Naval Architecture	
		\$2 million	
		Trailer Courts and Parks	
		\$1.5 million	
		Food Services	
		\$2 million	
		Car and Truck Renting and Leasing	
		\$2 million	
		Tire Recapping	
		\$2 million	
		Convalescent Homes	
		\$1.5 million	
		Data Processing	
		\$2 million	
		Computer Maintenance	
		\$2 million	
Construction			
General Construction Industries		Annual receipts not exceeding \$9.5 million.	
Special Trade Construction Industries		Annual receipts not exceeding \$5 million.	
Transportation and Warehousing Industries			
Not Defined Elsewhere		Annual receipts not exceeding \$1.5 million.	
Air Transportation		1,000 employees	
Trucking (Local and Long Distance)		Annual receipts not exceeding \$6.5 million.	
Warehousing Except Grain Storage		Annual receipts not exceeding \$6.5 million.	
Packing and Crating		Annual receipts not exceeding \$6.5 million.	
Freight Forwarding		Annual receipts not exceeding \$6.5 million.	
Grain Storage		Annual receipts not exceeding \$1.5 million and storage capacity not exceeding one million bushels.	
Agriculture			
		Annual receipts not exceeding \$1 million.	





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## Are Electric Cars the Answer to America's Gasoline Shortage?

**E**LECTRIC CARS were all the rage in the first part of this century, but better performance by gasoline-powered engines soon made them obsolete.

Today, both gasoline and diesel-fueled engines still perform better, but another factor has been introduced: A shortage of oil to make the gas and diesel fuel.

Electric vehicles, on the other hand, can run on electricity generated by a number of resources including coal, nuclear fission, water, and even solar radiation.

For a country that gulps prodigious amounts of oil, the prospect of electric vehicles replacing perhaps ten percent of conventional vehicles is appealing.

On the plus side would be a reduced need for oil. Electric cars produce no exhaust to pollute the air. They do require recharging, however. Although

much of it could be done at night during off-peak hours, greatly increased use of electric cars would require more generation of electricity with a consequent impact on the environment.

Motor vehicles are expected to change over the next two decades. Transportation Secretary Brock Adams suggests that Detroit reinvent the automobile: He predicts more diesel engines and hybrid vehicles with electric motors augmented by small booster engines. Automakers take umbrage at Mr. Adams's reinvent suggestion, but agree that changes must be made and that the government should help.

On the negative side, electric vehicles are heavy and small, and they cost more than conventional vehicles.

Present lead-acid battery technology limits range to 60 miles; acceleration is poor, and top speeds are barely adequate for highway driving. While tune-

ups are eliminated, batteries require care. Also, packs of 18 to 24 batteries must be replaced every 18 to 24 months, at a cost ranging up to \$2,000.

New battery technology will improve range and speed, but batteries still must be recharged, and that takes far more time—eight to ten hours—than it does to fill up at the gas pump.

Despite the limitations of electric vehicles, the federal government has spent more than \$50 million on research and development and is planning to spend another \$450 million by 1990. Hundreds of firms, big and small, are edging their way into the industry. While critics bemoan the money and effort as misspent, others believe electric cars and trucks are the vehicles of the future.

What do you think? Are electric cars the answer to America's gasoline shortage? ☐

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor  
Nation's Business  
1615 H Street N. W.  
Washington, D. C. 20062

Are electric cars the answer to America's gasoline shortage? ☐ Yes ☐ No

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\*Nation's Business, February, 1975.

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## Ceiling on Senatorial Moonlighting Favored

**I**F YOU are a U. S. senator, your annual salary is \$57,500 plus fringe benefits. You are also entitled to earn a maximum of \$25,000 a year in honoraria, with no single honorarium to exceed \$2,000.

In May, NATION'S BUSINESS Sound Off to the Editor asked if a senator's outside earned income should be limited. Almost two out of every three readers who responded favored restricting senatorial moonlighting.

Ralph M. Clarke, president of North Hollywood Insurance Agency, Inc., North Hollywood, Calif., says: "Why do our public servants think that they should accept our pay and then turn around and, on our time, engage in other income earning endeavors?" He suggests limiting the amount and sources of outside income.

"I am certain no factory would allow its supervisor to use the factory's workers and equipment to make a personal income," says Elsie E. Heimann, president of Heimann Mfg. Co., Inc., Urbana, Ohio. "Why should we allow our employees in Washington to do so?"

Don Marsters, a partner in Don Marsters Insurance, Portland, Oregon, favors limiting a senator's outside earned income. He says: "While I do not blame them for seeking more money, I still possess the old-fashioned idea that government servants should be only that—and that every minute of their waking hours should be spent in service to others, not to themselves."

"It seems to me," writes Michael Day, operations manager of Henry S. Day Co., Salt Lake City, Utah, "that a man who makes \$4,800 a month plus expenses and takes 30 to 60 days of vacation a year should spend every available hour working on the pressing problems of our country and not on his own pocketbook."

George Cunyus, senior vice president of the Hunt Oil Co., Dallas, Texas, feels there should be no limit on a senator's outside earned income. "A senator of moderate financial means who needs to earn additional income to support himself and his family is more in tune with the majority of the nation



*D. M. Doyle, chairman of the board, the Delmark Co., Minneapolis, Minn., questions how senators can do their jobs while engaged in outside work.*



*"A senator can only do one job and do it right," says Mildred M. Fitt, president of Lewis C. Johnson Co., Philadelphia. She favors a limit on outside income.*

than senators of inherited wealth who have never earned a living."

"I do not believe government should ever limit a person's ability to earn money," says Polly Hazelbush, owner of the Trading Post, Rangely, Colo. "However, I do not believe senators should leave Washington while Congress is in session. After all, it is their job to be there."

R. L. Winter, president of Western Thermistor Corp., Oceanside, Calif., agrees. "No limit on legal income," he says. "Nor do I want a limit on your income or mine. We shouldn't limit anyone's incentive to make an honest living—or a corporation an honest profit." He adds that "\$57,500 isn't much for a senator in Washington, D. C., these days."

Bud Morrow, general manager of Lakedale Telephone Co., Annandale, Minn., casts his vote for limiting senatorial outside income. "I believe that we should have either full-time legislators or full-time businessmen, not a combination of both. From some of the three-cornered small business legislation I have seen, I sometimes think that we have neither."

"The primary obligation of any elected official is to serve his or her constituents," contends C. L. Chris-

tian, general manager of Great Plains Mutual Insurance Co., Salina, Kansas. "And the only place this may be fulfilled is in their proper place in the Senate or House chamber."

Mr. Christian goes further than imposing limits on the amount of a senator's outside earned income. He feels that they shouldn't be allowed any.

Lorraine Harold, director of operations for Coast Travel, Costa Mesa, Calif., on the other hand, is against any restrictions on income. "Personally, I don't care how much money they earn outside of their regular work as a senator. But they should be required to put in time at every session. I do not buy absenteeism in any form."

"We don't restrict anyone else's income," notes Ervie A. Ellender, vice president of Newtron, Inc., Baton Rouge, La. "If they don't do their job, they will be challenged at the polls."

Dwight H. Hibbard, executive vice president of Cincinnati Bell, Cincinnati, Ohio, favors income limits. "This income usually depends upon the senator's expertise, which was developed at public expense. I prefer that he concentrate on his job in Washington."

"I do not believe that a lack of outside income will limit the number of applicants."



# He's 18.

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away with those criteria, drivers 25 and over—the vast majority—will pay 18% more to enable those who are younger to pay 42% less. The under-25 drivers who are female will pay 29% more to enable their male counterparts to pay 8% less. And married males under 25 will pay 68% more to enable their unmarried friends to pay 9% less.\*

The bottom line is simply this: the better drivers will pay **more** so that the worst drivers can pay **less**.

Now, who's being absurd?

\*Source: National Association of Independent Insurers



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## CONFIDENCE SURVEY

# Decontrol Wins Business Support

**A** MAJORITY of American business leaders agrees with President Carter that the lifting of federal price controls on domestic crude oil will increase U.S. production and persuade Americans to conserve energy.

This assessment comes from the latest quarterly survey of business executives by the Chamber of Commerce of the United States and the Gallup Organization conducted during April and May.

According to the National Chamber's testimony before the House Ways and Means Committee, decontrol could increase U.S. production by one million barrels of oil per day by 1985 and conserve 1.2 million barrels daily, equivalent to 12 percent of current U.S. consumption of crude oil.

### Windfall profits tax

"That figure means about 250 gallons of gasoline and 300 gallons of home heating fuel for the average household each year by 1985," the Chamber said.

While business executives agree that decontrol will lead to higher production and create more jobs, they believe that a federal excise tax on domestic crude oil—the windfall profits tax—would be counterproductive.

According to the National Chamber, such a tax "would reduce U.S. energy production by at least a quarter million barrels per day, equivalent to withdrawing 30 to 50 gallons of gasoline and heating fuel from each household each year."

Business people continue to suspect that current wage and price guidelines will lead to mandatory controls within two years.

### Credit controls

Fifteen percent of those responding to the survey believe that the guidelines will lead to a reduction in jobs, 33 percent see a reduction in profits, and 14 percent anticipate a reduction in investment.

A majority of business leaders now expects that wage and price guidelines will be expanded to include credit controls during the next year.

### Chance of Mandatory Wage-Price Controls Within Two Years

	Likely	Unlikely
Winter 1978	34%	66%
Spring 1978	53%	47%
Winter 1979	83%	17%
Spring 1979	73%	27%

### Impact From Decontrolling Crude Oil Prices

	No Increase Effect Decrease		
Energy Production	92%	4%	1%
Energy Conservation	58%	31%	4%
Business Output	16%	63%	6%

### Chance of Recession

	Within 12 Months	Within 24 Months
Fall 1978	38%	52%
Winter 1979	50%	63%
Spring 1979	50%	63%

### Chance of Double-Digit Inflation

	Within 12 Months	Within 24 Months
Spring 1978	35%	46%
Winter 1979	52%	54%
Spring 1979	64%	63%

While most business leaders still foresee mandatory guidelines, the majority has declined from 83 percent to 73 percent. This change may stem from the President's repeated statements that he opposes mandatory controls.

The people surveyed feel that the double-digit inflation in the first half of 1979 will continue during the next two years. This inflation outlook is the most pessimistic of the past two years.

Two thirds of business leaders expect the President and Congress to do a poor job in fighting inflation during 1979 and 1980, nearly one third expects a fair job, and hardly anyone expects a good job.

Because inflation pushes taxpayers into higher tax brackets, the federal personal income tax extracted an added \$350 from the average American household during 1978. Two thirds of business leaders say they favor using the windfall tax receipts to reduce the federal deficit, another 30 percent favor reducing income tax rates. Hardly any favor increasing spending.

If reducing the budget is not possible, then nearly all favor reducing taxes. Respondents were asked whether they would prefer indexing personal income tax rates to incomes or tax re-

ductions whenever Congress decides. Nearly three quarters opted for indexing tax rates.

Eighty-three percent of business leaders oppose use of federal taxes for congressional election campaigns.

Business people are no more pessimistic today about the chance of a recession than they were three months ago. They still see a 50-50 chance of a recession within 12 months. Within the next 24 months, there is a 63 percent chance of a recession, the same probability as in the last quarter.

### Stock prices

Only 12 percent expect the stock market to be lower during the next year, while 43 percent expect stock prices to rise. However, three quarters of respondents expect stock prices to be higher four years from now, while only six percent expect a decrease.

Most business people remain generally optimistic about their sales for this year and the next four years, but are less optimistic than they were nine months ago. Profit expectations for the next 12 months have improved somewhat since the first-quarter survey, but business executives remain less optimistic than they were last July.



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PHOTO: JERRY SOALT



Terry Herzog, right, and Bruce Lipnick... managing money is a lot like playing chess.

## Elms Boys Are Leaders of the Pack

Bruce Lipnick and Terry Herzog were once the new kids on a New York City block called Wall Street. Today, their financial concepts are a unique model for investment management.

Elms Capital Management Co., of which Mr. Lipnick is president and Mr. Herzog, executive vice president, is designed to help clients protect assets while investing in the stock market.

The New York firm manages more than \$50 million for its clients, plus millions more in the cash market.

"We're money managers, not stock handicappers," says Mr. Lipnick. "We try to develop income for clients from as many sources as possible. For example, spreads can be set up to make money no matter what's happening to equities. And we are willing to do this kind of work for the smaller investor—those clients with only \$500,000 or so."

Elms Management uses a number of tactics—bond swapping, securities lending, option writing, and hedging—to improve the financial standing of clients. It's like a chess game; the consequences of any move must be weighed in advance and in relation to other moves.

The two young men are accustomed to playing long shots.

"I was in the Navy, stationed in Pensacola, Fla., for a year, and ran a little clothing store selling the uniforms of fellows who had washed out of the program. It was the cushiest job in the whole world," recalls Mr. Lipnick.

"I never thought they would transfer me, but one day I was asked to fill out a transfer form. It was a sweltering 95 degrees that day, and I thought it would be cute to list an icebreaker as my ship preference. I listed Paris and London as my first two choices, and Antarctica as my third.

"Exactly two weeks later, I was on an icebreaker headed for the Antarctic."

When Mr. Herzog was 16, his father gave him power of attorney to trade his account on the stock market. Consequently, he didn't spend much time in high school. He attended Long Island University where, he admits, he didn't spend much time either.

"When I was going to college, I used to take money from professors and trade on Wall Street. I made a lot of money for them."

Although he went on to graduate school, "I dropped out about midway through my masters, because what they were teaching me wasn't working."

The two met on the New York subway, introduced by a mutual female friend. Mr. Lipnick had already started Elms Management with two other partners and \$200,000.

"Bruce had an outstanding management concept that would work, and the

time was right with the creation of the Chicago Board of Options Exchange," says Mr. Herzog.

"A tidal wave of change was about to hit Wall Street. Not only would options be publicly traded, but also all sorts of new concepts in terms of investing, trading, and managing money could be tried," he says. "We started at a time when the public was totally disillusioned with the old standard ways of managing money."

"What good is it if you produce a lot of ordinary income for a client, and it puts him into a high tax bracket? It defeats your whole purpose," Mr. Herzog adds.

The Elms team doesn't really mind being copied. "On Wall Street as anywhere else," says Mr. Lipnick, "everyone jumps into something new. But we intend to stay ahead of the pack. Our clients want us to be unique."

## A Lawyer Who Got Involved

R. Robert Linowes used to be Smokey the Bear's lawyer. You didn't know Smokey the Bear had a lawyer?

"Oh, yes," says Mr. Linowes. "When I was barely a year out of Columbia Law School, I worked for the U. S. Forest Service, and we had to get a law passed so we could copyright Smokey the Bear."

"We wanted to have permission for a licensing program to charge for the use of the symbol. It was government going into business."

It was also fairly profitable. "We made between \$500,000 and \$1 million a year. We licensed pants, belts, hats, dolls, T-shirts, scarves, paper—and we got five percent of the gross sales. It was a fascinating deal."

Later, Mr. Linowes went into business for himself. After a stint as an assistant county attorney for Montgomery County near Washington, D. C., he opened his own office to specialize in creative zoning. Later, he set up a branch in Washington.

"All the land around here is zoned, so it was a question of rezoning for a new use. We work with developers and builders to make land usable for their pur-









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R. Robert Linowes... getting involved in the community means a day-and-night schedule.

poses," he says. "The firm runs the entire development gamut."

Mr. Linowes has done a lot of running, too, especially in volunteer work for the Metropolitan Washington Board of Trade.

"Lawyers as a group are incestuous in a sense," says Mr. Linowes, who has just finished a term as president of the board of trade. "They are so taken up with their own activities that they generally contribute very little to the community. The exceptions prove the rule, of course."

Bob Linowes certainly does.

The list of his contributions seems endless: He is presently vice chairman of the economic development committee of the Council of Governments and vice chairman of the Baltimore-Washington Regional Association; chairman of the United Negro College Fund; a trustee of American University, WETA-TV, the Federal City Council, the Cultural Alliance, and the Washington Center for Municipal Research; director of the First American Bank of Maryland, the D. C. Manpower Advisory Commission, and the Montgomery County Economic Advisory Board; president of the National Capital Boy Scouts of America, a member of the D. C. and Maryland bar associations, and coauthor of three books on land use. Also, he is 1979's Scouter of the Year.

The board of trade uses executives on loan for many of its programs involving the disabled, former convicts, Vietnam veterans, and the poor. "Businesses and other organizations will lend us executives for three months or six months to work full-time on a problem," says Mr. Linowes. "You don't see law firms doing that. It is most frustrating to me."

All that participation means a day-and-night schedule for Mr. Linowes, who has 30 years as a zoning and economic development attorney. Like a good many others, he believes in the revival of the cities.

"In the past, everybody went to the suburbs, and many still do. They want the little house with the yard around it," he says. "But the cities have hit bottom, there's nowhere to go but up, and the suburbs are looking at the bottom—they are now in the throes of redevelopment, the throes of crime, the throes of insufficient revenues."

"And the energy crunch is forcing people to reconsider their commuting costs."

One problem with the suburbs, says Mr. Linowes, is isolation. "People are tired of driving the car to get a loaf of bread or a pack of cigarettes," he says. "Parents are tired of carting kids everywhere." And while new towns attempt to bring everything a city offers to the country, the idea that a city is a place to work and live in is proving popular. More and more people are moving closer in, and more and more offices are locating in town, he says.

Another problem with the suburbs, says Mr. Linowes, is its ghetto atmosphere. "This is a ghetto of people of one economic class relating only to people of the same economic class without the opportunity for them or their children to find out how anybody else works or lives. We shut ourselves off in our own economic enclave."

Mr. Linowes should know all about the suburbs. He has lived in one just outside Washington, D. C., for 15 years. "I've had to grin and bear it," he says, "but someday I will move into town."



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## Profits—the Proper Perspective

**T**HERE IS a great new furor over profits. Profits, the critics cry, are too high. Not so, answers business, once again appalled at the lack of public understanding of profits, particularly real profits in an economy gripped by double-digit inflation.

The average American, whose budget is being ravaged by inflation, is not inclined to look beyond the headlines. His impression is that the big companies are making money while his paycheck shrinks.

However, the "higher" profits that have become such a scapegoat are actually not high at all when adjustments are made to account for (1) higher taxes, (2) the increasing cost of materials used to make products, and (3) the difference between the original cost of factory equipment and the cost of replacing it at inflated prices.

Many people don't want to be bothered with these details, which are the key to understanding the true causes of inflation.

For example, because of lower profits from production and higher effective tax rates, capital stock—modern machines and buildings—per employee has declined since 1975 and is expected to remain low for the foreseeable future. Consequently, growth of output per hour worked—productivity—has slowed, in sharp contrast to productivity during previous business expansions.

The slower growth of productivity means that the average American household will get \$2,500 less during 1979 than it would have re-

ceived if productivity growth had been maintained. In large part, slower productivity growth has been caused by low investment growth, which, in turn, was caused by declining real profits from current production.

As a result, says the Economic Forecast Center of the Chamber of Commerce of the United States, slower productivity growth alone has added up to two percent to the annual inflation rate. The decline in real profits from current production is a significant cause of higher inflation, which results in a lower standard of living for Americans at every income level.

Americans can readily comprehend the kind of facts that explain what is really happening to take-home pay.

To find out those facts, Americans must delve into the true significance of profits, ignoring the superficial labels of "excess" and "wind-fall" bandied about by some politicians and the media.

In an economic system based on profit and loss, with profits being the reward for efficiency and risk-taking and loss being the result of inefficiency and risk-avoidance, profits are essential in keeping the economy healthy. Inflation, not profits, makes the economy unhealthy. And the real causes of inflation are not profits, but a host of things such as deficit government spending, overregulation, and a tax system that inhibits capital formation.

More Americans must realize that profits are not the problem—they are the solution. □

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